STUDIES IN INDIAN ECONOMICS

EDITED BY

C. N. VAKIL

UNIVERSITY PROFESSOR OF ECONOMICS, BOMBAY

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SYSTEM OF FINANCIAL ADMINISTRATION IN INDIA

BY

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PREFACE

In the Preface to "Finance Under Provincial Autonomy", the thirteenth publication in this series, an apology was offered for the delay in bringing out an up-to-date edition of "Financial Developments in Modern India", and the hope of a more comprehensive study of Indian Finance in a series of volumes was held out. I am glad to be able to announce now a concrete scheme of such studies as under :—

I. "Indian Finance, 1860-1920". This will be a reprint of "Financial Developments in Modern India" with suitable changes. (To be published after the War.)

II. "Indian Finance, 1921-1937." This will cover both Central and Provincial Finance during the Montague-Chelmsford Reforms period. (To be published soon.)

III. "Indian Finance since 1937." This will cover both Central and Provincial Finance up to a convenient date after the War. While the preparation of the full volume must wait, parts are being published, e.g., (i) "Finance Under Provincial Autonomy" (1940) and (ii) "Financial Burden of the War on India" (July 1943).

IV. "System of Financial Administation in India", the present volume.

V. "Justice in Taxation". (Under preparation).

The above scheme attempts not only a critical study of Indian Finance during the different periods, but also a critical examination of the system of Financial Administration now in operation and of the problem of justice in taxation, both of which must form the basis of the future constitutional and financial structure of the country.

The control over the public purse is the chief method by which modern democratic bodies exercise an effective check on their executives. A proper understanding of the system by which this control is exercised is thus of great importance in connection with the reconstruction problems which countries will have to face after the War. 'Finance' which is usually avoided by the layman as dull is sometimes made unnecessarily complex by the Administrator by rules and procedure incidental to red tape. The citizen and particularly

the legislator and the politician will however have to get over the dread of 'Finance', if effective democratic control over government is to be introduced in the country in the near future. The economic effects of finance cannot also be understood in the proper perspective, if the administrative system is not fully grasped. The object of this volume is to supply this want and enable those interested to have in one volume a systematic study of the existing system of Financial Administration in the country. The only other works of importance on the subject, those of Mr. P. K. Wattal and Dr. Gyan Chand, are out of date. Dr. Pinto has learnt a good deal from these distinguished authors, and profiting by their experience has tried to introduce several innovations in his study, particularly a theoretical examination of each important problem and a comparative study, wherever useful, of relevant features in other countries. Besides, the problem of control in our financial system has been fully considered. Combined with these features, the scientific outlook of the author and his clear and lucid exposition of an otherwise dry subject must appeal to all classes of readers interested in this important problem.

In doing his work first as a Research Fellow in this School working for the Ph. D. degree of this University, and later in revising the approved thesis for publication, Dr. Pinto has spared no pains to achieve accuracy in his statements. In this connection we have to mention several parties who willingly rendered assistance in this work. Dr. Pinto was allowed facilities by the Finance Departments of Bombay and the C. P. and Berar to understand the working of Provincial Finance and by various departments of the Government of India for Central Finance; and by the offices of the Accountant General, Bombay, the Accountant General, C.P. and Berar, the Accountant General, Central Revenues, and of the Auditor General of India for accounts and audit arrangements, Central and Provincial. The various Government officers from whom Dr. Pinto has received help and encouragement, he has specially mentioned in his 'Acknowledgements' to this book. To all of them, individuals and departments, we are very grateful.

C. N. Vakil.

School of Economics and Sociology,
University of Bombay,
15th August, 1943.

ACKNOWLEDGEMENTS

It is only natural that in a work which requires some knowledge of the details of administrative procedure and day to day working, I should have had to consult various Government departments and offices. I desire to express my gratitude for the assistance they have so kindly given me. In particular I am indebted to Mr. J. X. Santos (then Deputy Financial Secretary, Government of Bombay) now Accountant General, Nagpur; Mr. P. G. Shah, Accountant General, Bombay; Rai Bahadur P. B. Chakravarti, then Special Officer in the Finance Department of the Government of India; Sir Charles Badenoch (then Deputy) now Auditor General of India; and above all to Mr. C. D. Deshmukh (then Financial Secretary to the Government of the C.P. and Berar))now Governor of the Reserve Bank of India not only for his help in the early stages of my work, but also for his continued interest and encouragement. I have also had the benefit of valuable suggestions for improvement from Mr. Deshmukh and Mr. Shah, who, in spite of their multifarious duties, read through the manuscript before it was revised for publication.

I also acknowledge my indebtedness to the University of Bombay for the substantial financial help it has granted towards the cost of the publication of this book.

P. J. J. Pinto.

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INTRODUCTION

FINANCIAL administration is the medium through which the state conducts its financial business. It has, therefore, an importance of its own even though it may not be much realised by the people. The reasons for this lack of appreciation are not hard to understand. Till the people acquire at least some real control over the national purse, they are not interested in the mechanism by which public funds are collected, spent or kept in safe custody, or the principles on which that mechanism is based. Not many are keen on studying a problem that has merely academic interest under such conditions. Even after the introduction of the Montford Reforms there have been but two attempts at dealing with the system of financial administration in India, and since 1926, even though much water has flowed under the financial bridge, there has been no critical analysis of the system.

The British financial system has been acclaimed even by French and American writers on the subject as being the best that has been so far worked out by human genius. As we in India had also pledged ourselves to the parliamentary form of democracy, there was no more to do as each occasion arose than to take one more piece of the British system and fit it into our own with such minor modifications, as were necessitated by the size of the country or the stage of constitutional progress. For the first time in our history today we find a demand for a partition of India into two separate entities. The political future is dark and, as always happens on such occasions, there will be a temptation to tinker with the financial system. It is consequently very necessary to examine our financial system, the principles on which it is based, its fundamental parts, its essential features and its *modus operandi.*

Public Finance has to take cognisance not only of economic principles but also of the political structure. Financial administration is a part of Public Finance, a part that has enormous practical significance. It is the system of financial administration that gives expression to abstract

rules and principles ; and unless the system is well formulated and efficiently worked, the aims which the statesman and the administrator have in view will be frustrated. Hence it is true to call financial administration the handmaid of politics and economics ; for it is the instrument to effect in daily life what these two sciences have to offer in the abstract. Control over the executive, wise expenditure, well-considered taxation, economy in administration, are some of the problems financial administration must face and solve, though always within the ambit of constitutional provisions and economic principles.

Throughout the book the author has sought to give a critical analysis of the system of financial administration in India today. Before any problem can be analysed it must be stated ; and the statement here is a clear description of the system as it prevails today ; not a description of the various and detailed features, as that would require a volume by itself, but rather of the principal processes involved in financial administration. Details are required by the practical administrator in the tasks of daily life ; for an appreciation of the system it is sufficient to describe the main parts and show their interconnection, so as to bring out an adequate and complete idea of the whole.

But perhaps the more important task is to analyse the system, to criticise it and, if possible, to offer constructive suggestions. For that purpose it is necessary to have certain norms with reference to which criticism may be made. For the same reason it is essential to know the constitutional position of the different organs involved in financial administration and the constitutional limitations under which they work. Hence the first part of the book will begin with a brief study of the theoretical and constitutional aspects of financial administration.

The approach to the subject has been analytical, critical and comparative where possible; for in so practical a subject as financial administration comparisons are a necessity. We have to see what other nations with various forms of popular government have achieved. From their successes and failures we may learn much, not the least perhaps

correctly to evaluate our own system. There is no attempt at making the treatment historical, though a historical note is here and there inserted for the better understanding of the nature and functions of a particular organisation. It is hoped that the line of treatment taken up will throw light on a much neglected subject.

In analysing the system of financial administration we are confronted with the budget system as its central and most important feature. Hence the author has thought it desirable to deal first with all that goes with the budget system in India and then to take up other aspects of financial administration.

Following the aims set out above the book has been divided into three parts. The first deals with the general principles of financial administration and the constitutional provisions affecting personnel and organisation. The second centres round the budget proper, both at the centre and in the provinces, and therefore treats of the budget system as it prevails in India at the present day. The first part is theoretical and comparative, the second descriptive and critical. The chapters of the first part lay the foundation and give the preliminaries for all that follows. The six chapters of the second part are intended to provide a continuous account of the different processes of the budget system in India. The third part comprises all the other aspects of financial administration which cannot be brought to bear directly on the budget or which require a rather more detailed treatment than could be given in the second part.

Chapter I is devoted to the general principles underlying the financial system, while chapter II treats of the different stages through which the budget passes, in other words the organisation and procedure by which the financial business of the state is conducted. The former, therefore, deals with the scope of financial administration, the nature and functions of a governmental budget, the relations of the budget to the constitutional and political systems; the latter, largely illustrated with examples from selected leading countries, with the procedure governing a

budget while it is being prepared, authorised, executed or accounted for. Chapter III gives the constitutional background to provide a better understanding of the framework within which the Indian budget system works. A description of the various departments and offices connected with financial administration is then given in chapter IV, as a preliminary to the treatment of the Indian financial system itself. Throughout the book constant reference is made to these departments and officials, and it is useful to know even in brief outline their organisation and powers.

Having disposed of all these prerequisites we come to discuss the budget system in the provinces and at the centre. The second part of the book may serve as an illustration of the principles discussed in the first chapter and an application to India of the procedure treated in the second chapter. Whenever conditions at the centre and in the provinces differ considerably, the treatment has been divided into separate sections ; otherwise whatever is said of the centre applies *mutatis mutandis* to the provinces, and in such cases the differences, if any, have been pointed out. Chapters VII and VIII really go together and are separated merely to emphasise the problems mentioned in the latter chapter. This division also emphasises the importance of subsidiary devices to maintain the continuity of financial administration and of the time and space factors that influence it. Similarly chapters IX and X are very closely connected, for audit and accounts are a device for public economy and financial control. The separation of the two has, however, afforded an opportunity to deal in Chapter X with the problems of economy and control in a comprehensive manner and to exhibit them in one picture. At every stage of the budget there are the considerations of economy and efficiency to be borne in mind and these are indicated at the appropriate places. But it is useful, even necessary, for estimating the value of a budget system, to view the different devices as a whole.

Chapters XI, XII and XIII of the third part deal respectively with the Relations between the Centre, the Provinces and the Indian States, the Reserve Bank of India,

and Public Debt. In a federation the interrelations of the different units easily acquire a special importance, and with the inclusion of the Indian States in the federation administrative problems are bound to present great difficulties, considering that most of the Indian States are administratively backward. The position of the Reserve Bank is a pre-eminent one in the financial system, because the Bank acts as the government's banker and is the link in the financial sphere between the government and the business world. The management of public debt is one of the functions entrusted to the Reserve Bank but it is dealt with separately to bring out the differences in the various kinds of government borrowing.

There are four departments which occupy a special place in the financial system and it has been thought advisable to devote in Chapter XIV a small space to each of them. The Defence Services have been continually the target of criticism ; besides even in peace-time they account for one half of the expenditure side of the central budget and constitute one of the biggest organisations in the country. The Railways and the Posts and Telegraphs Department are commercial services, the former with a budget as large as the general budget and the latter with a budget of about twelve crores. Both have their organisations spread out all over India and special arrangements in the accounts and audit spheres. The Crown Representative's Department has been recently formed and has been included not for its financial importance, but to complete the picture of financial administration in India.

Financial administration is a science and an art ; hence it is both theoretical and practical. But even a cursory reading of the systems in various countries shows how for a long time practice lagged behind theory. The U.S.A. offers a classic example, for till 1921 it was the only great 'power' in the world which did not possess any budget system in the true sense of the word. It does happen unfortunately that even if a point is conceded on principle, it is not put into practice for one reason or another e.g. the estimated cost may be too large to make the change a

practical proposition, or constitutional difficulties may come in the way necessitating perhaps a constitutional amendment, or party interests may intervene and these have always been one of the greatest stumbling blocks to progress. In the U.S.A., for example, there is as yet no efficient control by the legislature through an audit organisation, and the committees of the legislature still attempt to frame the budget afresh, so that the estimates prepared by the executive are purely tentative, having no substantial value. In India it has been conceded on principle that accounts and audit should be undertaken by different bodies, and yet for the most part there is a combined system of audit and accounts, because it is still an open question whether the extra cost involved in separating the two organisations is counterbalanced by an adequate increase of efficiency.

We must, therefore, be prepared for divergences between theory and practice. The former should be taken rather as an ideal to be aimed at than an objective to be immediately realized. Sometimes the theoretically more perfect scheme has to be abandoned because of the time factor. This happens, for instance, with the accounting system that is followed. The accrual basis of accounting is more correct on theoretical grounds than the cash basis, and yet most governments have adopted the latter, because it lends itself to results which are more practical.

Hence the utility of having a theoretical discussion precede the analysis of existing organisation and practices. Such a plan shows the merits and demerits of the prevailing system and, what is more important, points out the direction for reforms.

It is possible to treat of financial administration independently of the form of the state. But it is only in a democratic state, that is, a state in which power is wielded by the people or their representatives, that the different stages of the budget procedure have meaning and content. This work is based on the assumption that we are dealing with the financial system of a democratic state. Though complete self-government has not yet been attained in India, there is the professed goal of democracy by which ultimately

we should test our practices. Hence the criticisms and suggestions made take into account, first, the existing constitutional limitations, and secondly, the changes that may be required when full self-government is achieved.

Though self-government is postulated, no form of democracy has been specially considered, nor is it required. Of course the form of democracy and all the political principles that go with it will determine the constitution, and the constitution in turn will influence financial administration ; so that the form of democracy does modify budgetary practice and procedure. Hence the differences, for example, between the financial systems of the U.S.A., France, England and Switzerland. We in India have so far followed the parliamentary model and, therefore, the British system has been of great and immediate use to us. But tendencies are not wanting to show that a change may be required in this direction to suit our national genius, our cultural heritage, our peculiar minority problems. It is for that reason that there is even more need to investigate the essential principles and features of a sound financial system, so that practice may conform to principles, no matter what the form of self-government may be.

The second assumption is that the government of India will be federal. Part II of the Government of India Act of 1935 [1] has not yet come into operation and at the present day the chances of federation being established are very remote. The Central Government is in a peculiar state of transition ; while in seven out of the eleven provinces the constitution has suffered a breakdown. Yet the constitution as given by the Act has been followed in this work. Until something definite is established the student of financial administration can only take cognisance of those features, which though not in force have yet received full parliamentary sanction. Hence in many instances the present position has been described and the changes that will come about on the inauguration of federation have been indicated.

War emergencies are a strain on the financial system, for the quickest way of getting things done is not always

1. Referred to hereafter as the 'Act of 1935' or simply the 'Act.'

the most economical way. In war-time control over expenditure suffers, specially in departments directly concerned with the prosecution of the war, and waste is more evident than otherwise. It is perhaps not out of place, then, to add that this book is concerned with the Indian financial system in force in normal times, in times of peace.

Sound financial administration demands a good budget system with effective financial control, trained and capable personnel, and an adequate organisation. Chapters I and II are devoted to a discussion of the principles and procedure of the budget system and budgetary control; here it is proposed to make a few remarks on personnel and organisation, which though essential for financial administration, come rather within the scope of public administration.

The working of any system depends very largely on the manner in which men are organised to work it; in fact, the important part played by organisation at the present day in all spheres of activity is universally admitted. The organisation of the different government agencies has a large bearing both on efficiency and economy; for it is a truism that budgets cannot be better than the organisation which prepares and executes them. Effective organisation, paradoxically enough, has to be both centralised and decentralised; centralised as regards control and general direction, decentralised so as to give free play to the use of discretion by subordinate agencies; centralised for the purpose of unification and co-ordination, decentralised for detailed and local administration.

Implied in a good organisation is a well trained, honest and intelligent personnel. Though a well designed system is very necessary, yet in practice, however perfect the budget system and however ingenious the devices for financial control, they are worth just as much as is due "to the integrity, ability and loyalty of the men that work it and no more."[1] It is the men who work the system that give the tone and spirit to rules and regulations and set a standard of administrative efficiency. Many a less perfect

1. E. H. Young, *The System of National Finance*, p. 12.

and less logical system has proved in practice to be more effective, because of the high standard of the civil servant. Given a good personnel, defects in the system may and will be easily remedied. But if the personnel is inefficient no sytsem can save itself from ruin. Hence the recruiting of officers and staff, their qualifications, their training and their remuneration are questions fraught with tremendous consequences to the financial system.

Two accounts of the Indian financial system are available, one by Mr. P. K. Wattal of the Indian Audit and Accounts Service and the other by Prof. Gyan Chand of Patna University.[1] Some writers have indeed included a short summary of financial administration as one of the many topics of Indian public finance ; but their purpose is obviously, rather to study problems connected with revenue, expenditure and debt than the system of financial administration. With the introduction of provincial autonomy in 1937 and the preparations to inaugurate federation, all previous accounts of the Indian financial system have been rendered out of date. Besides even in the sphere of administration, many experiments have been tried and many changes introduced as the result either of experience or of present day requirements.

For the general theory of budgets and comparative data standard works on public finance[2] and works on the budget[3] have been consulted. On the English and American systems much literature is available,[4] particularly on the latter because it is in the U.S.A. that the greatest dissatis-

1. Mr. Wattal's *Financial Administration in India* (1923) gives a clear and straightforward description of the system then prevailing, a description that is authoritative because it comes from one who is 'inside' the administration. Prof. Gyan Chand's *Financial System of India* (1926) follows a different plan and a critical method, and is based on "*The System of National Finance*" by E. Hilton Young, M.P. (now Lord Kennet).
2. As those by Adams, Bastable, Fagan and Macy, Groves, Lutz and Findlay Shirras.
3. For example, *Budget Making* and *The Budget in Governments of Today* by A. E. Buck ; and some parts of books like *The Budget* by Rene Stourm, *The National Budget System* by W. F. Willoughby, and *The System of Financial Administration of Great Britain* by Willoughby, Willoughby and Lindsay.
4. e.g. works by Young, Hills, Higgs, Hawtrey and Davenport in England, the Willoughbys, Buck and Collins in the U.S.A., Bland in Australia, Villard and Willoughby on Canada.

faction has been felt with the prevailing system and attempts have been made to go down to the essentials of the budget system. On Canada, Australia and South Africa books are scarce, and on France, Germany and Italy, though there seem to be excellent treatises, no English translations have appeared, as far as the author is aware. The system in India, as in the Dominions, is based on that of the British, admitted by all to be the best system so far devised. But we ought to see why this system is the best, so that when we imitate it we have an intelligent appreciation of what we are doing.

For the details of the Indian system government publications have been consulted ; but information has been sought, wherever possible, at first hand from the different departments and officials of the Government of India and also of Provincial Governments, mainly Bombay and the C.P. and Berar. The object has always been, in collating information from different sources, to analyse the different parts and discover the basis for each and their merits and demerits.

Adminstration is a practical and complicated subject, and therefore many points, with which the administrator is familiar, have been *terra incognita* for the author.[1] But it is hoped that substantially and in most details the description is correct. As regards analysis, the ground is surer, though it is perhaps for the first time that the system of financial administration in India has been studied with reference to first principles. An attempt has been made to treat in a comprehensive manner the problem of financial control as obtaining in our system—also a new feature that is intended to contribute to a clearer understanding of the subject. It is much to be regretted that the study of the system of financial administration in India has not received the attention it deserves ; and it is hoped that this humble work will serve at least in some degree to stimulate interest in the subject, which has a special significance in our own day, which is above all a period of transition.

1. Towards the end of 1940, after the book was well under way, a copy of Mr. Wattal's *The A.B.C. of Indian Government Finance* was received, a booklet which has helped us considerably in not falling into the errors of detail.

PART ONE

THEORETICAL, COMPARATIVE AND CONSTITUTIONAL

CHAPTER I

GENERAL PRINCIPLES OF FINANCIAL ADMINISTRATION

FINANCIAL administration is a part of public administration. If then public administration is the art and science of management as applied to a state, financial administration is the part of public administration which deals with all the financial aspects of state management.

SCOPE OF FINANCIAL ADMINISTRATION

Financial administration as a science is also a part of public finance and deals with the principles and practices involved in the proper administration of state finances. Financial administration on its practical side is "that part of government organisation which deals with the collection, preservation and distribution of public funds, with the co-ordination of public revenues and expenditure, with the management of credit operations on behalf of the state and with the general control of the financial affairs of the public household".[1] The former will deal with theory, the latter with procedure. This chapter and the next are, therefore, devoted to these two aspects of financial administration. Now financial administration being a practical science admits of many variations and it is, therefore, necessary to adopt the comparative method of approach. There are certain principles which are fairly well defined and there are certain points of procedure which are common to all states, but beyond that financial administration is governed by a number of facts e.g. the constitution and the constitutional conventions and usages of a country, its political structure, its special needs, and so on.

The importance of financial administration has increased in modern times for a number of reasons. First there has been a change in political ideology; the Police

1. Gaston Jeze, *Financial Administration*, in Fagan and Macy, *Public Finance*, p. 847.

State is giving way to the Service State. The activities which a state is called upon to perform are steadily increasing, and more stress is laid on the beneficent rather than the essential activities. This has resulted in a tremendous growth of expenditure and therefore necessarily of revenue. The problems of financial administration were simple enough in days gone by; now they are extremely complicated and must be handled by experts competent to wade through the mass of details and intricacies connected with the administration of state finances. Secondly, financial administration has to be adapted to democratic institutions where the legislature—the representative of the people—controls the purse. To enable democracy to function financial administration has to be systematised and simplified, so as to be within the reach of the ordinary intelligent member of the legislature, at least so far as the outlines of the subject are concerned. How to devise a financial system so as to secure efficiency on the one hand and public control on the other, how to co-ordinate the work of the expert and the amateur, how to promote economy and yet follow the wishes of the people has been one of the most difficult problems of modern times. Thirdly, the influence of science and of scientific method has extended itself to the field of financial administration. Science makes for order and simplicity and so in finance there has been the search for a more simplified and rationalised procedure. One even gets the suspicion that people, machine-minded as they are fast becoming, want something that works automatically. No social science, however, can achieve the exactitude of the mechanical sciences ; yet we can always work for an administration that is more simple, understandable and efficient. The more the people understand the 'mysteries of state', the greater interest will they take in the working of the state ; and democracy essentially is the contribution of every citizen to the problems of the state.

Problems of Financial Administration

The scope of financial administration, therefore, extends to a system of financial administration and the principles,

on which the system ought to be based. To value the efficiency of a system we must first appreciate the aims which it attempts to satisfy, the different problems it has to face. The definition of M. Gaston Jeze quoted above enumerates four processes : (*a*) the collection of revenues, the custody of public moneys, and the making of payments, (*b*) the co-ordination of revenue and expenditure through a well-considered plan, (*c*) the management of borrowings and public debt, and (*d*) the general control of financial affairs of the state or governmental unit. The first is concerned with the handling of public funds, the second with the budget proper, the third with debt operations and the last with financial control. The system by which in modern times these processes are put into operation is the budget system with which we shall deal in this and subsequent chapters. The adoption of a proper budget system is not only important, therefore, but vital ; for it is the instrument for an efficient and economical administration of public affairs.

An analysis of the problems that face financial administration may also be made from three other angles, revenue, expenditure and custody of moneys.

On the revenue side the legislature in accordance with constitutional law determines the sources of revenue and the conditions under which it may be obtained; and the executive organises and operates a machinery for the collection of revenue and the raising of loans. Control is exercised through accounts records and books of accounts, and through audit by an officer independent of the executive. The results of all these operations are summarised in reports submitted to the appropriate authorities.

For the custody and receipt of public moneys and the making of payments there is organised a treasury system in which the central bank of the country usually plays a leading part.

On the expenditure side the executive prepares a plan of estimated revenue and expenditure and the condition of

the public treasury as it is likely to be when the estimates are put into operation. The estimates are then sent for the approval of the legislature, together with suggestions as to how a deficit or surplus in the estimates should be treated. The legislature considers the plan, modifies it to a greater or less extent, and authorises appropriations for expenditures. The executive then sets about its task of spending the moneys allotted to it. For this purpose it has an administrative organisation and a procedure dealing with the sanction of expenditure, the examination of claims, the disbursement of moneys, the proper record of all payments supported by evidence for the same. To ensure efficient and timely control the executive must keep its accounts on a sound system of classification, so that expenditure for particular purposes may be easily and promptly available; and provide for periodical reports showing the progress of expenditure against the appropriation and the state of the public finances. Lastly, as with revenue, there is an audit of the accounts kept to verify their accuracy and ensure that all statutory requirements have been complied with. The results of audit are submitted by the audit officer in a report to the legislature.[1]

Considered chronologically these operations may be grouped under six heads : (*a*) estimating of revenue and expenditure, (*b*) voting of finance and appropriation bills, (*c*) collecting and spending moneys, (*d*) accounting, (*e*) auditing, and (*f*) reporting.

The foregoing gives a brief analysis of the problems of financial administration. Whatever system may be introduced, it has to provide a machinery for the different processes enumerated. The following chapter dealing with procedure shows how each of the above main divisions is connected with the budget system ; for it is through the budget system that financial administration is expressed in modern times.

1 Vide W. F. Willoughby, W. W. Willoughby and S. M. Lindsay, *The System of Financial Administration of Great Britain*, pp. 2-5.

CANONS OF FINANCIAL ADMINISTRATION

On the practical side financial administration deals with specific problems; on its theoretical, with the principles which should govern the general administration of government and the particular organisations for specific purposes. In this section are considered the general principles which must be followed to have an effective, democratic, and economical financial system.

First, sound financial administration demands unity of organisation. As in any army, the organisations in the state should be knit together in a regular hierarchy of control. As a result there should be centralised responsibility. It is essential to good administration that the person or persons responsible should be easily located; with responsibility goes the power to direct and command. Politically, power must be decentralised for effective government; administratively, it must be highly centralised. The more unified the different agencies of government are and the more centralised the responsibility of the hierarchy of officials, the more efficient is the administration. This centralisation does not mean that everything is done by a few at the top; details must be left to the discretion of the subordinate officers. But it does mean that the work of the different agencies is co-ordinated and rightly evaluated in any financial scheme of the government. The U.K. financial system is the most unified. Treasury control brings about this unification and centralisation. In addition, the cabinet because of its collective responsibility is forced to consider all the financial affairs as a whole. In France the different departments are practically autonomous; the Minister of Finance is not at all powerful. The cabinet itself is weak in the legislature and is hardly able to carry out its plans without substantial modification at the hands of the legislative committees. In the U.S.A., until recently, the administration was considered as separate from the executive. The administrative heads approached Congress directly, and therefore efficiency and economy suffered. The legislature is not fitted to exercise executive

and administrative powers. Consequently, not to strengthen the executive is to allow departments to have their own way. In India, administrative centralisation and control have reached a very high degree of efficiency, the more so because at the present stage of self-government, the executive is still very powerful. Hence, the problem of control and responsibility has been effectively solved.

As we said in the Introduction, we propose to deal with financial administration on the basis of democracy. Therefore the second main principle of financial administration is compliance with the will of the legislature, which is expressed through the appropriation and revenue acts. The executive must collect moneys and spend them on purposes specified by the legislature. This principle does not necessarily mean that the grant voted must be spent during the year, irrespective of other considerations as fall in revenue, extra expenditure in unforeseen directions, etc. ; every appropriation has rather to be considered as a sort of upper limit for executive spending. To control the executive the legislature takes an account of the stewardship at the end of the year through an audit organisation. Legislative control over the public purse cannot be said to be complete unless it takes steps to see that its commands and wishes are in fact carried out. The budget expresses and formulates these wishes. Therefore the administrative and executive agencies must carry out the budget. It is true that it is impossible for the administration to see that every small item is carried out according to the estimates. This extreme rigidity would destroy executive discretion and control, as happens in the U.S.A., where the budget is highly itemised, and worse still, mandatory. But the executive can and should see that expenditure on large heads is not exceeded and that transfers within a block of expenditure (called an appropriation or grant) are effected under a sound system of control. Strange as it may seem, even in the U.K., it was not till 1868 that steps were taken to ensure that the executive did in fact comply with the wishes of the legislature. Audit is a necessary constituent of a sound financial system.

Thirdly, there must be simplicity, promptness and regularity of functioning. Simplicity is required to economise and to make the system understandable to the people. Promptness has not always been a virtue of governmental financial administration. It is obvious, however, that a government cannot afford to give its decisions without due thought and regard for its policy in the past or the repercussions to its decisions in the future. Regularity of functioning is essential to efficiency. Modern life based on speed has increased the importance of regularity. A government department cannot afford to function at intervals, for administrative work is continuous.

The fourth requirement is that there should be an effective but not too complicated system of control over all the stages of financial operations. When there is a hierarchy of officials, control is automatically obtained. Lower down in the hierarchy attention is paid to detail ; higher up, to policy and co-ordination. Then again there must be control on behalf of the executive and of the legislature. The former is secured through the Finance Department or the Treasury, the latter through audit. In the United Kingdom, India, and the Dominions, the Finance Department plays a very important part in control ; in the U.S.A., the Treasury is definitely weak ; in France, though there is an organisation for control, it is ineffective. Again as regards audit, the promptness with which reports are prepared, is of great value for the exercise of control. The U.K. and those countries based on the English model provide for an audit organisation with independence and status to report on the working of the executive as soon as possible after the financial year is over. In France the Court of Accounts not only takes too long a time in investigating, but must wait for a number of years before the accounts for a particular financial year are closed owing to the fact that accounts there are kept on an accrual basis. In the U.S.A., the General Accounting Office while it is a useful instrument for control, differs from the audit organisations of other countries. It does not serve the same purpose as audit in England or France ; and seems rather to be an encroachment

on executive control of the administration. While there must be control at all stages it is not necessary that it must be exercised by the legislature or its agents. Perhaps the function of the legislature is best performed when restricted to review and policy. Details are entirely a task for the administration.

Further, control must not be complicated or else it loses in effectiveness and in economy. Too much control will lead to duplication of work on the one hand and to a weakening of responsibility on the other. For this reason, there must be trained and reliable personnel. No system, however perfect it may be, will work unless the men who make up the administration are honest and capable.[1] The recruiting of personnel is, therefore, as important as the system of administration itself. The stability of the country, the continuity of policy, efficient execution of sanctioned plans, and careful handling of finance are in great measure due to the men of the Services who by their ability and experience are in an excellent position to put large schemes into execution ; and not only to the upper ranks of the Services but also the subordinate to whom discretion in matters of detail must necessarily be given. It is due to good administration that stability in France is maintained in spite of repeated changes of cabinets ; it is due to capable permanent officials that ministerial government or government by amateurs is at all possible. Even if the system of administration is not up to the standard, first rate personnel can easily make up for the defects ; on the other hand, not even the best devised system with all its checks and controls can be effective if the personnel of the administration is inefficient or corrupt, for the "the public spirit of the servants of the state is the spirit that gives life to dead rules and regulations ".[2]

1. "In the matter of government a system well designed is a very necessary thing ; but in practice a system however well designed is worth just as much as is due to the integrity, ability, and loyalty of the men that work it and no more."—E. H. Young, *The System of National Finance*, p. 12.

2. Ibid.

The Budget as an Instrument of Financial Administration

We have spoken of the fourfold aim of financial administration. That aim is realised through a budget system, that is a system in which all the financial affairs of the state are regulated through a budget. It is through the budget that the executive plans up its revenues and expenditure for the coming year. It is through the budget that control over the administrative agencies is continuously exercised by the executive and at the end of the year by the legislature over the executive. The budget does not directly control certain functions of the administration e.g. public debt management, collection, custody and disbursement of moneys etc. Yet every function of a financial nature must find itself expressed in one way or another in the budget. Borrowing must be authorised by the legislature, and before loan moneys can be spent they must be budgeted for ; collection of revenues is exhibited on the revenue side of the budget, disbursements on the expenditure side while moneys in custody are shown in the debt, deposits and remittance section.

The budget system has now been adopted by almost every country in the world for " the adoption of this device as an instrument of administration is more than important ; it is vital if an efficient and economical administration of public affairs is to be had."[1] This statement will be appreciated when it is seen what a budget is and what purposes it serves. Before we discuss the nature and functions of a budget it will be useful, however, to see how the 'budget' and the 'budget right' came into being. It will then be apparent how important the budget is, even before we have dealt with the budget as it is today.

The Budget and Budget Rights

The word 'budget' meaning a leather bag was first used in its modern sense in connection with Walpole's

1. W. F. Willoughby, *The Problem of a National Budget,* in Fagan and Macy, op. cit., p. 859.

financial proposals which were satirised in a pamphlet "The Budget Opened" in 1733. In that pamphlet Walpole was represented as a conjuror, his budget being his bag of tricks.[1] In 1803 the word was used in France to mean 'estimates of receipts and expenditure,' though it was not commonly used in this sense until about 1814 Gradually, other nations began to adopt the term 'budget' in connection with their financial operations. In the U.S.A. it was hardly used in financial legislation until so recently as the beginning of the present century. The struggle for democracy has always been associated with the control over the purse, and therefore the development of the budget has followed popular government. A public budget as understood today "is impossible except for a people which enjoys, in some degree at least, the constitutional right of placing a limit to public income and of exercising a control over public expenditures".[2] The budget is not merely, therefore, a report to the legislature by the administrator "but involves a constitutional right that such a report shall be made in order that the people may control the finances of the nation."[3] These budget rights have not been easily won, at least in the older democratic countries. In England, Parliament claimed for itself from earliest times the right to approve of taxation and other sources of revenue. The whole of the struggle during the Stuart period was on this point of taxation. By 1688, Parliament definitely secured this power to tax as a constitutional right and began to determine the purposes for which moneys should be spent and the amount to be spent on a particular object. When these powers of taxation and appropriation were recognised the budget came into existence ; for a plan had now to be presented annually to Parliament for its approval both on the revenue and expenditure side. It took a long time, however, for this financial plan

1. "The word 'budget', bouge or bougett....derived from the Latin word 'bulga' become Gallic, which expressed a bag, a pocket, a purse. Its origin is therefore Latin and French. England has applied it to the great leather bag which for a long time contained the documents presented to Parliament to explain the resources and the wants of the country."—Journal of the Statistical Society, London, Vol. xxix, p. 325.

2. Adams, *Science of Finance*, p. 104.

3. Ibid., p. 105.

to be developed into a full-fledged modern budget ; but the germ was there. Having fully secured the right to tax and the right to make appropriations, Parliament was satisfied ; and it was only less than eighty years ago that the control of Parliament was made more effective by instituting the Public Accounts Committee and requiring the Comptroller and Auditor General to ascertain and report how the money allotted for specific objects and items had been spent. This procedure for holding the executive accountable for the budget has completed the budget system.

In France the budget began to develop after the Revolution of 1789. The right to vote taxes was vested exclusively in the representatives of the nation and that right has been maintained in the different constitutions down to our day. The right to control expenditure was not immediately realised because the National Assembly lacked both the knowledge and the precedent to establish it. The first French budgets were produced by the first three Finance Ministers of the Restoration. By 1831 the French budget system was established. The Cour de Comptes was established during the Napoleonic regime to examine the accounts of spending officers. During the Restoration it became an agency of the legislature and is now the independent agency for the audit of the accounts of the national and local governments.

In India the control over the budget has been an eloquent index of self-government. From 1892 the voice of the people has been made more and more effective.[1] Yet even today under the constitution large sums are spent without legislative sanctions ; at the centre even as much as four-fifths of the expenditure is non-votable.

In Germany, the budget system was started late. In the first German Reich of 1871 as well as under the Weimar constitution of 1918 the executive was very strong. Under the Weimar constitution the cabinet was responsible for the national budget. The Finance Minister assembled the

1. Vide Ch. III, *India in Transition*.

estimates. Audit of accounts was carried on by the Rechnungshof. At present Germany is dominated by Hitler and the Nazis ; and constitutional government has been thrown to the winds.

These four illustrations show how important budget rights are in popular government. He who controls the purse, controls the state ; and the budget system is but an instrument for the people to control the purse. Hence the importance of the budget system.

Definition of a Budget

Strange as it may seem, specially in view of the long use of the word and the study devoted to it in many countries in recent years, the term 'budget' has not yet acquired a precise meaning on which there is general agreement. Is it a mere estimate of revenue and expenditure ; or should we take it as synonymous with a revenue and appropriation Act ? Rene Stourm defines the budget of the state as "a document containing a preliminary approved plan of public revenues and expenditures."[1] To Gaston Jeze "the budget in modern states is a forecast and an estimate of all the public receipts and expenses, and, for certain expenses and receipts, an authorisation to incur them and collect them."[2] Paul Leroy Beaulieu's definition is very comprehensive, for the budget to him "is a statement of the estimated receipts and expenses during a fixed period ; it is a comparative table giving the amounts of the receipts to be realised and of the expenses to be incurred ; it is furthermore an authorisation or command given by the proper authorities to incur the expenses and to collect the revenues."[3]

In India certainly there is a great difference between the estimates and the granting of appropriations by the legislature. The former is an approved plan of revenue and expenditure, to use Stourm's expression ; the latter is an authorisation of the legislature given finally in a 'Schedule of Authorised Expenditure.' The estimates show

1. *The Budget*, p. 4.
2. Quoted by W. F. Willoughby, *Nature and Functions of a Budget*, in Fagan and Macy, op. cit., p. 860.
3. Ibid.

what and how the executive wishes to spend in a particular year ; but it is the schedule of authorised expenditure that gives legal authority to the executive to spend and indicates the amounts within which the expenditure must be kept. In the last resort it is the schedule with reference to which the legislature will hold the executive accountable.

A. E. Buck speaks of three essential elements in a budget : "(1) a financial plan, (2) a procedure for formulating, authorising, executing and controlling this plan, and (3) some governmental authority responsible for each successive stage in this procedure,"[1] thus taking the budget in the general sense as meaning the budget system. The financial plan by itself he calls the budget proper. The use of the word 'budget' in two senses is often misleading ; and we think that the three elements enumerated by A. E. Buck should be referred to as the 'budget system' and not simply the 'budget'.

On closer examination the budget is not merely a plan, as Stourm and Buck would say ; it is something more. W. F. Willoughby has struck the right chord when he says that the budget is at once a report, an estimate and a proposal ;[2] that it is the instrument[3] by which all the processes

1. *The Budget in Governments of Today*, p. 46.
2. "It should be at once a report, an estimate and a proposal. It is the document through which the chief executive as the authority responsible for the actual conduct of governmental affairs comes before the fund-raising and fund-granting authority and makes full reports regarding the manner in which he and his subordinates have administered affairs during the last completed year ; in which he exhibits the present conditions of the public treasury; and on the basis of such information sets forth his program of work for the year to come and the measures in which he proposes that such work shall be financed."—W. F. Willoughby, *The Problems of a Budget*, in Fagan and Macy, op. cit., p. 861.
3. "The budget is a document through which all this information is brought together in one consolidated, co-ordinated, and comparative statement....is not so much one of the distinct financial operations of the government as the means through which the several operations, actual and prospective, are brought together and clearly presented to the end that they may be all considered at one time in their relation to each other....It is the one thing which brings detached operations into a logical and harmonious system, and permits consideration of the activities and cost of the government as a whole. Without it a country can scarcely be said to have a financial system, certainly not a scientific system."—Willoughby, Willoughby and Lindsay, op. cit., pp. 7-8.

of a financial administration enumerated in a previous section[1] are correlated, compared with each other and co-ordinated into a complete whole. The budget is no doubt a plan ; but it is also a report and most of all the instrument of financial administration. And it is because of this last element that the budget considered as a plan is so important in the financial business of the state.

Hence though there is no clear-cut definition of the term 'budget', we know fairly well what it stands for. The confusion that arises is chiefly due to the word being used in two senses to denote the budget proper as well as the budget system. Throughout this book the word 'budget' when used alone will stand for the budget proper, for the budget which is at once a report to the legislature of the transactions of the last completed year, an estimate of the next year's requirements and a revised estimate of the current year's, a plan and a proposal from the budget-framing authority to the fund-raising and fund-granting authority through which the finance of the state will be controlled. In all other cases the terms 'budget system' or 'budgetary procedure' or 'budget control' will be used to denote the system which centres round and works through the budget.

The budget system, as we have seen above, is the means by which financial administration for the most part is expressed ; and therefore what has been said of the requirements and functions of financial administration applies equally to the budget system. The budget system must provide for unity[2] and centralisation, for control at all stages of budget procedure, for simplicity, promptness, regularity, and efficiency of functioning, and for trained, capable and reliable personnel to work the system in the right spirit and to the best advantage.

Essential Characteristics of a Budget

Obviously the budget should possess as many good

1. Vide Ch. I, *Problems of Financial Administration.*
2. Willoughby, Willoughby and Lindsay remark that the different budget stages should dovetail into each other and "only as this is done can a country be said to have an effective scheme of financial administration."—op. cit., p. 6.

qualities as possible ; yet we may reduce the essential elements to four : (*a*) comprehensiveness and unity, (*b*) equilibrium, (*c*) economy and accuracy, and (*d*) annuality. It would appear that all other qualities are directly or indirectly included in these four.[1]

Comprehensiveness and unity[2] are perhaps the most important features of a budget. By comprehensiveness is meant that the budget brings together in one consolidated statement all the financial requirements of the government, whether of income or expenditure, and all the facts of the financial conditions of the government, whether these requirements and facts relate to the experience of the past or the problems of the present or the estimates of the future. In other words the budget must show *all* the income and *all* the outgoings of the government ; and this not in several unrelated totals but in a unified statement. Of no government can it be said that its revenues are unlimited, and hence there must be a division of revenues against the different claims of expenditure. Government must decide on a consideration of relative as well as absolute values, the importance or urgency of the purposes to which funds will be appropriated. To perform this task efficiently, government must consider all the needs at one time as a single problem. Hence comprehensiveness refers to the inclusion of all facts bearing on all 'the incomings and outgoings' of government, unity to their inclusion in one plan.

To appreciate the significance of past operations and the purpose of the proposals for the future the budget must

1. Leon Say (quoted by Stourm, op. cit., p. 145) enumerates four qualities: the budget must have unity, be prepared annually and in advance, and represent an accounting personality. "It is necessary to enclose a budget in a monument, the arrangement of which can easily be discerned and the outlines of which are apparent at a glance....It is necessary that the contract be limited in its duration ....The Legislature would become responsible if the budget were set in operation prior to the Legislature granting the right....The budget is voted as a birth certificate of a person whose destiny it is to move around for an entire year."

2. *Régle de l'universalité* and *régle de l'unité*—The rule of universality and the rule of unity—as the French writers have it.

be complete and detailed,[1] so as to show the relationship between past and anticipated results clearly. The English system provides for this unity and comprehensiveness through the consolidated fund. All income goes into this fund ; out of it all expenditure is met. Hence the budget gives gross figures[2] exhibiting all the details of income and expenditure. In France certain funds are outside the general budget altogether, and the railways have complete budgetary autonomy ; but otherwise the budget is very detailed and all-inclusive. In the U.S.A., the device of the consolidated fund has not been adopted, and so there are a number of funds for specific purposes. The budget is comprehensive, though unity suffers as all the items cannot be considered against total revenue.

In India the centre and each of the provinces has its own public account to which all public revenues are credited and from which all public expenditure is met. The Indian budgets are very detailed and complete. The railway budget is separated from the general budget. The question, therefore, is whether such a device destroys unity or comprehensiveness. If use is made of special auxiliary budgets for public enterprises of a commercial or industrial nature, so as to separate their finances from the general finances, and yet to co-ordinate them with the general budget by stating the net results therein, the unity of the budget is not destroyed. Industrial and commercial services are not the essential functions of government, and may therefore be separated from the general budget, where their presence either unduly inflates the figures so as to give a wrong idea of the cost of government, or is a source of great uncertainty in maintaining the balance of the governmental budget,—both of which reasons apply to the railway budget in India. Auxiliary budgets may even be a means to provide fuller information of the services they refer to. But the same

1. "The budget must describe *in extenso* all the operations relating to revenue and expenditure clearly and frankly."—Stourm, op. cit., p. 144.

2. Minor exceptions are the appropriations in aid—small amounts of income under a particular head which are taken straightway as reductions against expenditure.

advantage would not accrue if independent budgets were resorted to. These definitely violate the principle of comprehensiveness and unity.

Closely connected with this principle is that of equilibrium. After all there is no meaning in getting all the items of income and expenditure together unless it is to formulate a balanced plan. "The balancing of revenues and expenditures is rightly deemed to be of the essence of a budget. In this way only can the relationship between the two sides of the national accounts be established, and the effect of the action had or proposed upon the financial situation of the government be made known."[1] On this point of equilibrium all writers are agreed. Every Minister of Finance stresses the importance of budgetary equilibrium. Continued deficits cast a reflection on the financial credit of a country, affect its borrowing powers and are a symptom of instability ; and this instability may affect the economic structure through business uncertainty and financial disorder.

Though stressed in theory, in practice this principle is not easy to follow. A balanced budget is one in which anticipated income exactly offsets the estimated expenditures. But that is not sufficient. A budget must also be balanced in its actual results and therefore maintain its balance at the end of the financial period. To provide for variations —and variations there will be because estimates can never be exact—the budget provides for a small surplus. To have a large surplus at the end of the year also indicates poor estimating. Only on rare occasions[2] should such faults of heavy deficits or large surpluses occur.

In connection with budgetary equilibrium the plea has

1. W. F. Willoughby, *The Nature and Functions of a Budget*, in Fagan and Macy, op. cit., p. 863. Willoughby, Willoughby and Lindsay, speaking of the budget as a financial plan say: "It is of the utmost importance that this fundamental character and purpose of the budget should be clearly apprehended. It is the one thing which binds detached operations into a logical and harmonious system and permits consideration of the activities and cost of government as a whole."—*The System of Financial Administration of Great Britain*, p. 8.

2. e.g. economic depression or war or special windfalls.

been put forward for balancing not each year's budget but a series of budgets extending over a number of years corresponding to the economic cycle. This question of annual versus cyclical budgets is considered later.[1]

Economy and accuracy form the third quality of a good budget. Stourm agrees that the budget must estimate revenues and expenditure as accurately as possible, though he considers economy as not being "a technical qualification inherent in the mechanism of the budget."[2] He appreciates, as he says, the spirit of order and economy, desire for reform, etc., that may inspire the framers of the budget plan ; but he considers them to be natural and personal qualifications.

Accuracy is essential if equilibrium established in the estimates is to be maintained to the end and realised in the actuals. Besides an estimate, unless it is fairly correct, ceases to be an estimate and degenerates into a mere guess. Economy is also required because, as we saw above, the budget is not just a plan but the instrument of financial control ; and financial control has economy for an important aim. Accuracy has never been a hall-mark of American budgeting. British and Indian budgets in that respect are far superior. For economy the British and Indian systems have a central co-ordinating and revising body in the Treasury and the Finance Department ; in France and the U.S.A. the legislature undertakes a task for which it is not well qualified, namely, the re-framing of almost the whole budget.

The last feature of present-day budgets is, what has been called, annuality, i.e. budgets are prepared for one year only. The year is a customary period based on natural phenomena of great significance for the economy of a country. It is a natural cycle ; but perhaps the most cogent reason for taking the year as a standard is that "it is not too long for accurate estimating ; and it is probably the shortest period that will not consume too much of the

1. Vide Ch. I, *Kinds of Budgets.* 2. *The Budget,* p. 146.

legislative session in the consideration of the budget".[1] This annuality does not mean that every item of revenue and expenditure must be discussed or voted every year ; there is much in the budget that is the result of different pieces of legislation and as regards which the legislature acts best by being silent, e.g. salaries of judges, requirements of contracts made by the state, etc.

However, though the year has been very generally accepted, the date of commencement differs from country to country, and depends very largely on the custom of the place and on the factors that influence accurate estimating. The practice of different countries in this regard is considered in the following chapter.[2]

From what has been said above, it is clear that the budget performs three functions. First, it provides information of the past and proposals for the future ; secondly, it is a plan showing how much revenue might be expected and from what sources ; how much expenditure will be incurred, on what services, in what amounts, and how any surplus or deficit will be met. Thirdly, it is an instrument of control. The fact that the executive must secure the approval of the legislature every year is itself a guarantee against executive tyranny, for at the end of the financial year comes the day of reckoning. Audit examines the accounts, and submits a report of its investigations to the legislature.

Government and Business Budgets

Superficially the two seem to be alike for both are concerned with estimates (which are a measure of probability) and the formation of a balanced plan ; both aim at maintaining financial stability. But fundamentally they differ because the purposes of the state are totally different from those of industrial or trading companies. The latter budget *positively* for greater expansion of activities on the basis of maximum net profit ; the former

1. A. E. Buck, op. cit., p. 127.
2. Vide Ch. II, *Time of Preparation.*

budgets in a *negative* direction by trying to keep down figures to the lowest consistent with efficient administration. A government emphasises, therefore, its expenditure side ; it scrutinises all items so as to determine the maximum amount of expenditure, and only when this is done to arrange its revenue policy so as to balance expenditure. Government therefore aims at keeping taxation to the lowest possible level. These distinctions wear down somewhat when we consider the budgets of services conducted on commercial or quasi-commercial lines.

Another difference between state and business budgets arises from cost control by which the business is able to check the cost of production at regular intervals. For example, in India, except in certain departments as the defence services and commercial establishments, government does not provide for costing ; for accounts are maintained on a departmental basis and not to show the cost of any object of expenditure. Then again there are the intrinsic differences in the nature of the services provided by government; with the result that comparison even between the expenditures of various departments is difficult.

A government budget is rigid because on the one hand it is the expression of policy, and on the other hand it is very largely enforceable at law. A business budget has necessarily to be flexible, because it must be modified to suit changing conditions and has no legal support. Lastly the business budget has a great value as a co-ordinating influence on business policies and plans ; the state budgeting system cannot so strongly claim this advantage because of the unrelated nature of state services and the general absence of long period planning. Certainly the Finance Department and the cabinet do co-ordinate the different estimates but never in any scientific manner ; for there are no means with which to decide certain matters with accuracy.[1] In business the co-ordination is almost mathematical. Again the government budget period is the year, as a longer period would lead to less accurate budgeting ; business firms make good

1. e.g. what proportion should go to defence and what to education.

use of long period budgets,[1] whose chief advantage consists in enabling short-period policies to be co-ordinated in definite programmes of development.

Kinds of Budgets

In the first place budgets may be annual or for a longer period, usually by economic cycles and chiefly for capital programmes. All most all governments have adopted the annual budget[2] and that for many reasons. The year is a natural cycle on which most of our customs and practices are based. A longer period would militate against accurate estimating ; a shorter one would take too much of the time of the legislature. Long period budgets, particularly where the executive depends on a majority in the legislature, are almost worthless ; for the majority might change and each party has its own policy to follow. An annual budget provides for quicker rectification of errors than a long period one. The argument for cyclical budgets is based on economic trends. Economic life, it is said, is marked by cycles of prosperity and depression ; and government ought therefore to consider the period as one unit. There may be budget deficits during the depression but they could be counterbalanced by surpluses in the good years. For example[3], towards the end of a depression reduction of direct taxation might give such a psychological fillip to industry, that in a short time there would accrue substantial surpluses. The public could be directed to pay attention only to the final results, regardless of any surplus or deficit at any intermediate stage. The first difficulty is, how is it possible to determine accurately the length of an economic cycle ? Secondly, if it is difficult to estimate accurately for a year, how can estimates for three or four years or for a longer period be even roughly approximate ? Thirdly, public confidence in the financial stability of the government would be

1. Specially as regards capital programmes.
2. There are some American States which have biennial and one or two which have quadrennial budgets.
3. The late Mr. Neville Chamberlain as Chancellor of the British Exchequer drew attention to such a scheme in order emphatically to reject it.—Vide Budget Speech, April 25, 1933.

shaken. As Mr. Chamberlain said, (if he resorted to borrowing now to be repaid by a surplus at the end of three years) "everyone would perceive that I was only resorting to the rather transparent device of making an unbalanced budget look respectable."[1]

The Finance Member of the Government of India introducing the budget for 1940-41 also referred to long period budgeting. "The view is rapidly gaining ground," he said, "that budgetary finance should not be too closely circumscribed within the watertight compartments of single successive years, and that in a period of prosperity instead of making the whole of the surplus of national income 'fructify in the pockets of the people' the government should drain on it to an extent which will enable it to bear less heavily on the country in a period of depression. There is obviously great force in this view......" But the fact remains that cyclical budgeting, though it seems to have the advantage of dealing with economic periods, is yet faced with overwhelming practical difficulties and requires a very strong government to resist the temptation to resort to such a device to put off the evil day for retrenchment or taxation.

Long period budgeting has been advocated, at least so far as capital programmes are concerned. This requires a separation of the budget into two parts, current and capital,[2] and of the total government expenditures according to the means of financing them. The first is intended to show how much is needed to keep the government going, the second to effect improvements or invest in properties or other lasting assets. The difference also suggests the distinction in the ways of financing them—the former from revenues, the latter from borrowings. But even where the budget is separated into these two parts, they must be presented together and in such a form as to give one picture, or else the budget will lack the essential element of unity. Long term financial planning has already been effectively employed in connection

1. Budget Speech, April 25, 1933.
2. Sometimes referred to as "operating" and "improvement" budgets in the U.S.A.

with the capital budget in several American Municipalities. There seems to be no difficulty against accepting such planning, provided for each year the unity of the current and capital parts of the budget is preserved ; for in that case capital budgeting is in the nature of a programme spread out over a period of time but always co-ordinated with each year's current budget. Such capital budgeting has much to recommend it.[1]

In India, as in Great Britain, there is no capital account in the sense that a large business has one, though capital and income are separated for certain purposes. In the U.S.A., the practice is very much the same. The great danger in separating the budget into current and capital is that in time of hardship the government passes on to the capital budget what should properly come under the current budget. If necessary safeguards are taken to prevent abuses, long term financial planning is useful.

Another division of budgets is into independent and auxiliary (or annexed)[2] budgets. The latter are co-ordinated with an independent budget usually on a net basis, that is, the net surplus or deficit of each annexed budget is shown in the main budget. Auxiliary budgets are useful for commercial undertakings or services. These undertakings are expected to be self-supporting, and an auxiliary budget can promote this policy by bringing into sharp relief the revenue and expenditure pertaining to it in a separate,

1. Buck says: "Such planning enables governmental authorities to anticipate capital movements over a period of time, to arrange them more or less in order of their urgency, and to distribute their total cost in the manner least likely to overburden the revenue system of the government. When once satisfactorly worked out, a long term program obviates avoidable borrowings for capital improvements and stabilizes, in a large measure, the financial demands upon the government for such improvements. Not only capital, but also current expenditures, may be brought into the programme by anticipating the running expenses of the government and its debt service in aggregate amounts. A program of this character can be prepared for a period of five years without great difficulty and with a fair degree of accuracy when economic conditions are at all normal. The experience of Soviet Russia, not to mention local governments in other parts of the world, has fully demonstrated that this is feasible." —*The Budget in Governments of Today*, p. 139.

2. The annexed budget in France has long been in use.

detailed statement. Stourm[1] thought that in France the annexed budgets tended to destroy the unity of the budget and render financial control difficult. Jeze writing after the world war of 1914-18 considered the practice workable and desirable and as not impairing budgetary unity. Allix in 1931 approved of the independent budget for the French Railway System that was then recently introduced, and went further by advocating that independent budgets should be used for all important self-supporting undertakings. Independent budgets give a certain autonomy to an undertaking but they impair both comprehensiveness and unity. The device of auxiliary budgets is sound but it has to be used with discretion. First, the undertaking must be large enough to deserve an auxiliary budget or there will be a large number of small budgets which instead of helping examination will make it more tedious. Budgetary unity is an important factor not to be lightly discarded. Secondly, if the undertaking, industrial or commercial, is so large as to disturb the general budget, there is a clear case for an auxiliary budget. The Railway Budget in India is an auxiliary budget and was introduced " to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates and to carry out a continuous policy based on the necessity of making a definite return to the general revenues on the money expended by the State on railways."[2] The third advantage of an auxiliary budget is that it enables proper scrutiny by the legislature.

The independent budget for public undertakings is favoured by some and has been applied mainly to publicly owned railways in Germany, France and Switzerland. It has been said that commercial undertakings must be free from the rigid control applied to the routine departments and from the politics and meddling associated with legislative consideration of the budget ; free to maintain accounts on a commercial basis, to hold balances at the end of the fiscal year for working capital funds, to set up reserves against depreciation, to plan for longer periods than a year,

1. In 1912. 2. Assembly Resolution of 20th September, 1924.

etc. For all these considerations public commercial undertakings should have an independent budget. We think, however, that the device of auxiliary budgets is the more desirable. Unity of the budget is preserved; and all undertakings by the state are brought, as they should be, under legislative review. The railways in some countries enjoy a deal of financial autonomy through the independent budget; but we think that an auxiliary budget serves equally well. The Act of 1935 sets up a Federal Railway Authority for India which will be free altogether from the control of the legislature. In 1926 the French railway system was made a corporate entity and given a large measure of financial freedom. The railway budget was not voted by Parliament but already, as Allix maintains, this has evoked justifiable criticism from the legislature. The Senate Finance Committee has declared that the suspension of direct legislative control ought to be temporary.

Another kind of budget is that classified as ordinary or extraordinary.[1] An extraordinary budget is a device for emergencies.[2] Expenditure and income in such a budget are separated from the ordinary or normal budget; but there is the tendency in such cases to transfer expenditures from the ordinary to the extraordinary part. The ordinary budget is then balanced but this balance is a fictitious one. The extraordinary budget then in its original sense and for its original purposes ceases to be and becomes rather "the juggler's cap, by means of which the Finance Minister disposes of the deficit"; and if balanced at all, is balanced by borrowing. This sort of division tends to divide the budget sharply, so that unity suffers. But the greatest defect of this device is the abuses which it makes easy through manipulation of budget items. France and Belgium have been using it regularly; Germany used it in connection with war indemnities and reparations payments. Italy broke

1. This classification closely resembles the current and capital budgets spoken of above.

2. Emergencies may arise from expenditure having increased much beyond the original estimates or from income not coming up to expectations owing to a sudden change in economic conditions.

off the practice of the extraordinary budget in 1923. With the New Deal the U.S.A. has gone in for a double budget, which is only another name for an ordinary and extraordinary budget. India, following the English system, has fortunately been free from such dangerous practices.

Corrective and Supplementary budgets are another means to correct[1] the budget as put into execution at the commencement of the financial year. The corrective budget used in France is a second budget, superseding the first, in order to adjust the equilibrium of the first budget, if it has been disturbed by current conditions. Budgetary balance is no doubt preserved in this budget; but the defect lies in this, that as a regular feature it tends to make the legislature treat the original budget as merely a tentative plan, thereby encouraging careless budgeting, and secondly that it controls the expenditure of only a part of the year. France used corrective budgets from 1862 to 1871; Germany from 1920 to 1923, adopting from one to a dozen during a single year. A corrective budget was also employed by England in September 1931, when it went off the gold standard. The supplementary budget, also complete in itself, is by way of an addendum to the original budget.[2] It does not supersede the original budget nor tend to unbalance it; and besides clearly shows the increases or decreases required in the original estimates. Hence it is preferred to the corrective budget. More usually, the practice of supplementary appropriations is followed whereby additions to the original budget are sanctioned. A supplementary budget is also

1. If the need for a corrective or supplementary budget arises as a result of faulty budgeting, such budgetary practices deserve to be fully condemned. The executive is aware perhaps that some items will not find legislative approval if submitted with the ordinary estimates, or perhaps that an item has a good chance of passing the House if only it is underestimated, but is fully confident that in the hurry of a fresh budget—when estimates have ceased to excite the House or rouse public opinion in the press—such items will be passed without much ado. A corrective or supplementary budget for such purposes necessarily diminishes the value of the original estimates.

2. Used in England and India, only on exceptional occasions e.g. during war-time.

required as a regular feature, when the budget, as in the U.S.A., is very highly itemised and therefore rigid. Such a state of affairs, however, calls for more elastic budgets rather than the dangerous expedient of supplementary budgets.

One more type of budgets may be considered—gross and net budgets. Should the total figures for receipts and expenditures be given in the estimates or only the difference between the two? The gross amounts, we think, ought to be shown, for as Gladstone said, "to render Parliamentary control effectual it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account." Most governments follow the practice of gross budgeting for it helps to remove suspicions of backdoor manipulations ; though there are minor exceptions to it in the shape of appropriations in aid, etc.

It is objected that gross figures unduly swell the budget, specially the commercial services. The objection is easily overcome by having annexed budgets for commercial services. In this way only net figures are carried to the general budget, while all details are available in the form of an appendix. It is far better to have gross figures and swell the budget rather than use net figures and make the budget more mysterious to the ordinary legislator than it need be.

The use of gross or net figures is of importance in connection with the revenue yielding departments. In the middle of the last century revenue departments in England deducted expenses of collection before submitting estimates. This method was condemned by a resolution of the House of Commons in 1848. At present gross figures are given and the estimate for collection expenses is included in the budget. This method, as will be seen later, is rendered indispensable when a general or consolidated fund or public account is established in a country, for such a fund or account requires that all receipts should go into it and all expenditure met from it.

Form and Contents of a Budget

Because the budget is a report on the past and a plan for the future, the form and contents of a budget acquire a special importance. The budget must contain all information that is necessary to give a complete and accurate picture of the financial plan for the year and of the financial condition of the government. That information must be couched in a form that is simple, clear and easily understood. The kind of data and documents needed, the classification to be followed and the method of presentation must be so selected, as to enable the ordinary member of the legislature to vote on, and the public to follow, the difficult problems presented to them. Hence there, usually, are the detailed estimates for the different activities of the government, summary statements of this mass of details, and a message or speech that interprets and in general explains the salient features of the budget. On this information is based the finance bill for revenue and the appropriation bills for expenditure.

The estimates are a huge mass of details covering every activity of the government. But this mass, to be intelligible, must be well classified. Yet even in England there is no scientific analysis of expenditure.[1] For the purpose of enabling comparisons to be made and maintaining continuity, the classification of items and the general presentation ought to be permanent as far as possible ; and no change introduced without ample notice, as otherwise the real budgetary position will not be understood.

In the U.S.A. scientific classification is a recent achievement, yet the advance both in theory and practice has exceeded, it seems, that in any other country. Income is now classified according to sources from which it is

1. "In the larger estimates the votes and sub-heads do not record the total cost of any specific object of expenditure, but show the cost of a single item, such as pay, which is relevant to many services. The result is that it is impossible to calculate the true and complete cost of any particular service, an obvious handicap in criticising expense. Comparison is thereby made more difficult."—J. W. Hills, *The Finance of Government*, p. 35.

derived, collecting agencies and funds to which receipts are credited. Under sources would come revenues, borrowings, liquidated assets and sometimes currency manipulation. Revenues are further subdivided into those from taxes, fees, privileges, services, sales, interest, etc. Classification by collecting agencies is simple but not helpful, if more than one tax or duty is collected by it. Classification by funds is required where all moneys do not go into a general or consolidated fund. Expenditure is classified on five bases: according to functions performed, the agencies or organisation units responsible for the services, the objects and character of expenditure, and funds from which particular expenditure is financed. Classification by function is not logical ; as it is often the mere product of historical accident, or of the manipulations of influential politicians who wish to increase their prestige by magnifying their office, or even of the mutual jealousy or vested interests of officials. Classification by organisation units lacks uniformity but fixes administrative responsibility for expenditure on a particular department, and is therefore essential for financial control. The classification by objects gives great uniformity but is liable to great difficulties in accounting and statistical analysis.[1] If expenditure is divided into current expenses, fixed charges and capital outlay, then we have a character classification and it serves to distinguish operation and maintenance expenditure from that which increases outlay. When expenditure is classified according to the fund from which it is met, we have a classification of expenditure by funds.

The summary statements of estimates are useful to take in the whole situation at a single glance, as it were, and to know the relative costs of the different services. The budget speech gives life to the dry bones of budgetary facts and figures, and by a simple and summary presentation of the budget helps to rouse public opinion on the budget. The budget speech is one of the most important items of the budget session ; both the legislature and the people look forward very eagerly to it. Where there is only a message

1. Such a classification by objects is applied in some states of Australia.

from the Chief Executive tacked on to the estimates the psychological value is lost, even though otherwise it might be a first rate contribution to the budget procedure. The budget speech covers the estimates of revenue and expenditure, deals with the financial proposals of the government for revenue as well as capital expenditure and ways and means of operations, and summarises the financial position of the government. The revenue and appropriation bills form a sort of corollary to the above ; they are the instruments through which the legislature will pass judgment on the executive's plans and declare its wishes.

The form and contents of a budget must aim at giving the financial plan. Hence attention has to be paid to comprehensiveness and arrangement, and to general budget summaries. Hence also the need to decide on the type of budget that is most scientific and useful.

Budgetary Control

The problem of control is both important and difficult. There must be control at every stage of budgetary procedure and this control must be effective and free from complications. A system of control that is involved and complicated will lose much of its value ; for administration ought at all stages to be simple and straightforward. In addition the system of control, so far as this work is concerned, must be suited to a democracy. If the problem of budgetary control is at all times difficult, it is much more difficult in a democratic country.

The system of control in financial administration has two objectives in view—economy and efficiency in determining what should be done and in executing it. For this end responsibility is fixed on some department or officials, who are required to keep accurate accounts of all their transactions ; and thus by means of responsibility and accountability, control is secured. For economy and efficiency there is great need for perspective, that is for viewing all governmental activities in one sweep, so as to be just and equitable in giving them their due importance.

Consequently central control is an essential to wise expenditure. In efficient administrations there is a hierarchy of officers for the purpose of rigid supervision, control and accounting at all stages of the budget, from the initial estimates to final expenditure. Further the control exercised must be real, by an officer who is intelligent but who is himself subject to revision and control.

The different stages of control are divided between the executive and the legislature. The executive should control the administration. In the first stage of estimating there is chiefly administrative control through the heads of offices concerned. The danger to be avoided here is that of a narrow outlook. The estimates are next reviewed by the heads of the various government departments chiefly with reference to policy; yet there is room for real scrutiny. The third stage is one of review and co-ordination, which is undertaken in the first instance by a Finance or Budget Department but ultimately by the executive. When the estimates have gone through this review, they are placed before the legislature for discussion and approval, a procedure which is essential to budgetary control in a democracy. The legislature examines the estimates either itself or through committees, and the sanctioned estimates are put in the form of appropriations. The budget is then formally ready for being put into execution.

When the budget is being carried out, once again executive and legislative checks come into play. Transactions are recorded in books of accounts and the executive watches the progress of the budget from day to day, from week to week. An audit organisation brings all irregularities to the notice of the executive authorities for regularisation. At the end of the financial year it reports on the accounts to the legislature, which conducts investigation through its committees to see if its orders have been faithfully carried out by the executive.

The importance of public opinion for budgetary control, specially in a democracy, can never be overrated as a great controlling force. " It is in their importance to

this ultimate authority—the electorate—that budget procedures, in the course of their development find their greatest constitutional significance."[1] Public opinion must be a sort of forum to make the executive and the legislature responsive and responsible to the will of the people. To enable the public to pass judgment on such intricate and difficult questions as finance, the different problems must be stated in such a way as to give as clearly and simply as possible the issues raised by the general policy of the government as well as by separate proposals.

One danger connected with control must be carefully avoided, and that is rigidity. At all times control ought to be consistent with the use of discretion. The legislature should realise its capacities and its disabilities in its dealings with the executive and the executive in turn with the administration. The legislature is not fitted, for example, for detailed control and, therefore, should not take over tasks which call for such control. The executive must leave to its administrative officers the more detailed aspects of financial administration, reserving to itself all decisions on policy and major cases of administrative procedure. Discretion is essential in daily administration, and control from above must always take note of that fact.

We have spoken above of accounting and audit as a means of control. In the following chapter we shall go into details on the subject showing how control is exercised by a good system of accounts and reports and by an independent and capable audit organisation.

General Considerations on the Budget

In conclusion in this section are outlined the various factors affecting, and the political, social and economic significance of, the budget ; so as to afford a complete idea of the very important, in fact central, place which a budget and budget system hold in the financial administration of a country.

1. Willoughby, Willoughby and Lindsay, *The System of Financial Administration of Great Britain*, p. 16.

In the constitutional and legal field the budget is conditioned by the respective powers of the executive and the legislature and the statutes of the country. The constitution and the law provide[1] a groundwork and framework on which the budget rests and within which it must work. The constitution gives the relations between the executive and the legislature, prescribes certain fundamental budgetary regulations such as the financial statements for every year, etc. The United Kingdom is unique in this respect. Some of the basic features of the financial system are expressed not through the law but through the standing rules of the House of Commons, e.g., that every appropriation or taxation measure must be recommended by the executive, that the members of the House may reject or reduce but never increase an item of expenditure or revenue, etc.

The constitution, as we shall see in a later chapter, even gives the essential elements of budget control, specially in federal governments where the constitution is written and detailed. The constitution expresses the political ideas of the people and the political patterns of their choosing, and therefore plays no mean part in budgetary procedure. The American theory of the separation of powers and of checks and balances has had a far reaching influence on the budget system of the U.S.A. Till recently there prevailed in that country what may be termed a legislative budget with an almost direct control by the legislature over the administration. The executive was hardly in a position to unify budget proposals and estimates into a balanced plan. Further the practice of mandatory appropriations deprived the budget of much needed elasticity, and established too rigid a control ; so that the executive could hardly use its discretion to preserve the budgetary balance in times of stress and strain. The law also plays an important part in budgetary matters. The Budget and Accounting Act of 1921 made provision for a budget system in the U.S.A. But perhaps more important than the letter of the law is the

1. Budgetary regulations are merely a mass of laws and conventions, in which the latter are perhaps the more important.

spirit in which the budget system is worked and the conventions that are the result of that spirit. The English budget system is based almost entirely on conventions and yet it is said to be the most efficient system so far devised.

The form of government also affects the budget system. In a federal state there are a number of governmental authorities, and therefore financial planning for the whole nation is less effective than in a unitary state where the national government assigns powers and functions to the smaller bodies. The problem of interrelations[1] in a federal state has never been successfully solved and it is doubtful whether it ever will. One difficulty is that of maintaining minimum standards of administration in the constituent units of a federation, for each unit within the constitutional ambit has full autonomy. Another is that of preventing overlapping of services between national and other governments with consequent duplication that is obviously uneconomical. This is a problem in personnel.[2]

The political significance of the budget is apparent. Parties scramble for power to carry out their programmes, which are effected by manipulating the budget. Secondly the party system affects the budget on its control side. A two party system gives a strong executive and a keen opposition. The executive that is based on a coalition is never so powerful as an executive chosen entirely from a single party. Unity of opinion on essentials is a pre-requisite for framing a unified financial plan. On the other hand there is the danger that the majority party, conscious of its voting power, may ride rough over the other parties. Theoretically the correction of such a situation lies in a change of public opinion in favour of another party. Difficulties, however, arise when parties are formed

1. Both financial and administrative. In a federation there is no co-ordinated financial programme for the centre and the constituent units. In India the pre-autonomy unity of administration has been very useful in maintaining good standards. The constitution also provides for eliminating some of the difficulties of administration. See Ch. XI, *Relations between the Centre, the Provinces and the Indian States.*

2. In Canada it has been estimated three men are required to do the work that ordinarily two perform in a unitary government.

on a horizontal basis, or when they do not cut through different social classes and creeds, as in India.

From the economic and social point of view the importance of the budget can hardly be overestimated. The budget is an instrument for sound finance but it may be abused. Window dressing to produce balanced budgets is not uncommon even in our own day. An unbalanced budget as a continuing phenomenon is a symptom of financial instability. Borrowing is an easy way out of difficulties but it is not necessarily a healthy way. Again expenditure may be productive and unproductive; but it makes a deal of difference to the well-being of a people. It has been the continual complaint of the Indian legislature, for instance, that the government spends too much on defence services, too little on beneficent or nation-building services. Still again the budget may be an instrument for carrying out long term planning. The five year plans of Soviet Russia, the New Deal of Roosevelt, the schemes of economic planning advocated in so many places and by so many people—all these are operated through the budget. As Gladstone said in his time "budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relations of classes and the strength of nations."

Finally, attention must be drawn to the technical aspects of the budget. There is the stage of estimating and framing the financial plan; there is the stage of carrying it out where again certain devices must be employed; and lastly, the stage of accounting and auditing. All these are technical processes and require trained and capable men, and hence well-qualified staffs to aid and advise the executive and the legislature. Among such staffs, the staff of the Finance Department or Treasury and that of the Audit Department deserve to be singled out.

CHAPTER II

BUDGET PROCEDURE

THE preceding chapter was devoted to the principles underlying the budget ; here budgetary procedure and the principles governing such procedure are dealt with. On principles there is substantial agreement. But as is to be expected, in actual life there are wide divergences in the methods followed by the different governments, and this chapter attempts to compare and evaluate some of them.

Whatever be the details, however, we may distinguish four well marked stages on which all authorities are agreed. Terminology differs, but we may call them (*a*) the preparation of the budget, (*b*) the legislation of the budget, (*c*) the execution of the budget, and lastly (*d*) the reckoning of the budget or the auditing of accounts. In the first and third the executive is prominent ; in the second and fourth it is the legislature that has or should have a dominating position. In the first stage the estimates are collected, criticised and then consolidated into a financial plan. The second stage involves the consideration and the voting of the plan by the legislature. The carrying out of the budget as authorised is the third stage ; and the review and scrutiny of the budget as carried out is the last stage. Each of these stages is now considered at some length.

A. Preparation of the Budget

Government finance turns upon the pivot of the budget. The budget is essentially a financial plan and, therefore, like every other important plan ought to be prepared with care, foresight and intelligence. Four questions sum up what must be considered when preparing the budget : (1) who should prepare it, (2) when should it be prepared, (3) how should it be prepared, and (4) what should it contain.[1]

The answer to the first will treat of budgetary initiative,

1. cf. Rene Stourm, *The Budget*, p. 53.

of the relative merits of executive and legislative budgets, and of the different agencies, principal and subordinate, that must co-operate in framing the estimates. Under the second and third questions will be discussed the suitability of the time for formulating the estimates, the method of estimating revenue and expenditure, and the procedure for the consolidation and review of estimates before they are incorporated in the final budgetary plan. The answer to the last question will indicate the quantum, quality and presentation of the information which the legislature must possess, before it can intelligently and in a responsible manner vote any revenue or appropriation measures.

Budgetary Initiative

That the executive agencies, office by office, department by department, should draw up the initial estimates of their respective requirements is obvious. But that the executive should formulate a unified, comprehensive and balanced plan of income and outgoings, even though favoured by prominent authorities[1] in all countries, did not figure in the financial procedure of the U.S.A. till so recently as 1921. And further that the executive should not only formulate but also defend and accept full responsibility for its budget before the legislature is a moot point even today, and is conditioned by constitutional laws, conventions and usages, and still more by the traditional financial practices of a nation and state of public opinion. The budgetary practice of the U.K. and the Dominions, of France and the U.S.A. are a sufficient comment upon this point, as will be shortly evident.

Opinion is growing, however, that the preparation of the budget is properly a function of the executive and not the legislature. "From a theoretical standpoint," says A.E. Buck, "there are no valid arguments against the executive taking the initiative in the formulation of the budget."[2] It

1. For example : Higgs, Hilton Young and Hills in England ; Rene Stourm, Gaston Jeze and Allix in France; Adams, Cleveland, Willoughby and Buck in the U.S.A.
2. *The Budget in Governments of Today*, p. 79.

is outside the proper scope and beyond the competence of members of legislative assemblies to frame estimates and draw up a balanced plan.[1] They are more interested in politics, and should be more interested in policy, than administration ; they are compelled to look first to the needs of their respective constituencies and then to the national interest and welfare, for they must on the one hand fulfil the pledges made at the last election, and on the other, secure the goodwill of the voters for the next. They are far removed from the pulse of the administration and, therefore, hardly in a position to understand its needs or evaluate the requests from the different departments.

Besides, if the executive which administers and executes the budget with its army of officials is not utilised to prepare the budget, the executive is not giving the nation all it can do and is adequately equipped for. Consequently, economy is sacrificed without there being any likelihood of a more accurate or equitable budget.[2] The executive precisely because it is better acquainted with details, will exclude " impracticable theories which look well on paper, but which cannot be realised in practice "[3] and concentrate its energies on the formation of a practical, harmonious budget in which there is a balance between the estimated and the executed budget as well as " a just apportionment of the aggregate of public expenditures to the various lines of public service."[4]

1. " To approve them is the work of the legislature, but to prepare them is that of the executive. Parliament will have the last word upon them, but Parliament cannot of course itself make them out; for that the detailed knowledge of the executive is needed."—E. H. Young, *The System of National Finance*, p. 26.

2. Hence the emphatic assertion by Rene Stourm : " The executive alone can and should do this work. Situated at the centre of the government, reaching through its hierarchical organisation to the smallest unit, the executive more than anyone else is in a position to feel public needs and wishes, to appreciate their comparative merits and accordingly to calculate the budgetary provisions which each of these needs and wishes justly deserves. Others may know certain details as well, possibly better than the executive, but nobody can have so extensive and impartial a view of the mass of these details, and none can adjust the conflicting interests with so much confidence and precision. Moreover the executive, charged with the execution of the budget, is compelled, through concern for his future responsibilities, to prepare the financial plan as well as possible." *The Budget*, p. 53.

3. H. C. Adams, *Science of Finance*, p. 118.

4. Ibid., p. 119.

Estimating and the framing of a budget plan require forecasting of expenditure and particularly of revenue, a knowledge not only of the needs of government and their cost, but also the revenue that is likely to be realised. It is the executive and not the legislature that has this double knowledge, and hence best fitted to perform 'the nice and delicate operation' of balancing the budget.

In practice the powers of the executives of different governments to frame the budget plan vary considerably. The Dictators possess the fullest power over the budget. With the help of their parties, they not only formulate, but *also authorise it fully—they determine the budget completely. In Italy it is Mussolini and his Fascist Grand* Council who give the general directions and lay down the policy to be followed, though details are worked out by the Finance Minister and his department. In Soviet Russia the Political Bureau of the Communist Party plays an important part in shaping the general budget policy, while a combination of political and government agencies enable the annual budget to be linked and co-ordinated with economic planning. In Germany Hitler and his Nazi party have complete control over the budget. The Reichstag is a puppet body which gives its assent to whatever is laid before it.

In democratic countries, it is the legislature that finally authorises the budget, and the executive may either possess limited authority in formulating it or sometimes function as a mere advisory body entrusted with purely clerical duties. Of all the executives of governments based on the parliamentary model, the British cabinet enjoys the broadest powers in theory and almost complete power in practice, for the cabinet is but a committee of the legislature, in normal times of the majority party in the House of Commons. Certainly, over expenditure the control of the cabinet is absolute. A defeat on expenditure estimates means the resignation of the cabinet, followed occasionally by a dissolution of the House of Commons and an appeal to the country. On taxation measures the House of Commons retains its former control; over expenditure it

has abdicated its power in favour of the executive.

But if the cabinet enjoys great authority, it has also to bear a heavy responsibility; for to remain in office the cabinet must so prepare the budget that it will not only meet with the approval of Parliament, but also prove effective in practice. Not an easy task specially when there is an 'Opposition' ready to make capital of any flaw that may occur ; in fact an exceedingly difficult task during periods of economic depression.

The British cabinet not only possesses budgetary initiative, but gives the budget, once formulated, united support in the House of Commons. The cabinet is jointly responsible for the budget produced ; it stands or falls by it. More than this, no revenue proposal or expenditure can be brought forward by a member of the House of Commons unless he secures the endorsement of the executive. The House of Commons may reduce or reject an estimate, it cannot increase it.[1] And all these powers, it will be clearly seen, enable the cabinet to produce a balanced plan and in large measure to control it. The Dominions of the British Commonwealth closely follow the British model.

In marked contrast to the British cabinet is the French ministry. It also prepares the budget plan ; but its powers of control over the budget are limited. Unlike the British cabinet the French cabinet is not jointly responsible for the estimates put forward. It is not unusual even for a cabinet minister to oppose the estimates of a colleague of his. The Chamber of Deputies and the Senate may change the budget plan as they deem suitable and on occasions they have even substituted a new one. The French executive has the right to prepare the initial financial plan ; thereafter all depends on the personality and skill of the ministers in seeing it through. The difference between the powers of the British and French cabinets is a good example of the influence exerted by the party system on the budget. In England a party usually does not take up office, unless it

1. Rule 66 of the House of Commons.

is sure of a majority in the House of Commons. Coalition governments are rare. In France, as the multiple-party system prevails, no single party by itself ordinarily commands an absolute majority in the Chamber or Senate ; and a coalition cabinet is never in a strong position to pursue its own policy.

In Germany under the Second Reich the Chancellor dominated the cabinet, and as the Chancellor was responsible only to the sovereign who alone could give authority to law according to the constitutional principles of the country, the right of members of the Reichstag to propose finance bills was of no avail, unless every measure voted by the Reichstag was accepted by the Imperial Chancellor and made a government measure. The result of this centralisation was a harmonious balanced budget.

In Switzerland, however, which is perhaps the most democratic of countries it is very interesting to note that the executive is unique ; it performs a purely clerical function, that of bringing estimates before the finance committees of the legislature. This is in strong contrast with the British procedure, where the cabinet regards an adverse vote on expenditure estimates as a vote of no-confidence. Considerations of mere prestige are not allowed to dominate the Swiss financial system.[1]

In budgetary matters the U.S.A., of all the advanced nations of the world, was till 1921 the most backward, for it possessed no budget at all in the full sense of the word, till the passing of the Budget and Accounting Act of that year. Those who opposed budgetary initiative by the executive said that such a privilege curtailed the power of the legislature unduly and was against the fundamental principle of the separation of powers. Those who favoured an 'executive budget' argued that the legislature was unable to prepare a properly balanced financial plan, and that in budgetary and administrative matters, executive leadership and responsibility were essential. They proposed

1. The importance of this will be better appreciated when the functions of the Estimates Committee are discussed. Vide Ch. II, *Co-operation between the Legislature and the Executive* and Ch. X, *The Legislature.*

changes within the constitutional structure, as their chief aim was co-operation between the executive and the legislature which was strangely lacking in their system. After 1921 the executive received the power to draw up a balanced financial plan. However, in about one-third of the states the 'legislative budget' still continues.

At the present day the framing of the budget is entrusted to the President who performs his task through the Bureau of the Budget. But the privilege of defending the budget before the legislature has not yet been granted to the executive and is viewed with suspicion as transgressing the principle of the separation of powers on which the United States constitution is built.

Budgetary Agencies

While the executive may be entrusted with the responsibility of framing the budget plan, yet the actual details are left to a special department, generally the Finance Department or Treasury or Budget Bureau.

The cabinet is concerned chiefly with the laying down of policy ; it is for the Finance Minister and his staff to see that this policy is carried out with the greatest economy, accuracy and efficiency. Here again a point must be noted : unless the cabinet is strong, the Finance Minister cannot be strong. Compare, for instance, the British Chancellor of the Exchequer and the French Finance Minister. The former revises estimates from the other departments, and no estimate is included in the budget unless it has received his department's sanction. It is only a cabinet decision that can overrule him. The latter has no such powers. It is his business to bring the estimates together ; there is no rule that his prior sanction is required before estimates are consolidated into the budget. It will thus be apparent that the hegemony of the Finance Department makes for economy and harmony of the budget. Much depends of course on the skill and personality of the Finance Minister and the principles he follows. His task is not an easy one ; for the qualities he needs for its successful accomplishment

are manifold.[1]

Behind the Finance Minister is his department of shrewd and experienced officials and trained staff. The Finance Department has a sort of priority over other departments ; for that very reason foresight, sympathy, good judgment and a sense of justice should be among the virtues possessed by the men who form such a department. The Finance Department is entrusted with all aspects of governmental finance, not merely the preparation of the budget. But on the preparation of the budget will depend to a large extent most of its other activities. The collection of taxes and duties, and of revenue generally, is a function of that department. It is because of this function that the Finance Department is primarily responsible for producing a balanced budget. It knows the income that may prudently be expected ; it is therefore in the best position to see that expenditure is kept within that limit. Further, usually not being concerned itself with expenditure, it can be more impartial in evaluating requests from other departments and thereby make its power effective. On the quality of the Finance Department will depend the quality of the budget presented to the legislature.

As between the cabinet and the Finance Minister, so with the Finance Minister and his department. If the chief is strong his department can be strong ; if the chief is like every other minister, then the Finance Department will be little more than an intelligent clerical department. As was remarked above, the British Treasury has effective

1. Speaking of the Finance Member in India, who is often a Civilian, G. Findlay Shirras says: "He has to bring to the task of public finance a mind keen and alert; an intelligence trained in the best schools, a natural capacity for business, a genuine and practical sympathy with various communities, especially the mercantile community, and a keen desire to be up and doing. He must be, as Lord Morley would have said, a paragon. A Finance Minister is not merely a veritable lion of the Treasury but also a vigilant guardian of the public purse, who upholds the arms of the Government in its annual struggle with the Amalekites in Budget Debates. He is something more than a framer of taxes and manipulator of budgets. He must never resist the dictates of commonsense, and must show a readiness to meet criticism and an anxiety to win his point by carrying conviction that is not always found behind an official waistcoat." —*Science of Public Finance*, Vol. II, pp. 949-50.

powers over estimates submitted, even to the point of rejecting proposals without assigning reasons. The French Finance Department is definitely weak; it may remonstrate or call attention to the need for curtailing expenditure, but it cannot reject any estimates. To make matters worse, from 1931 in addition to the Finance Minister there was appointed for political reasons a Minister of the Budget. This plural executive, as the French term it, can hardly make for harmony and has been severely criticised. The most serious drawback is divided responsibility, as both ministers share the responsibility for the preparation of the budget. In the U.S.A. the President is assisted by the Bureau of the Budget which, though included in the Treasury organisation, is yet directly subordinate to him. The Director of that Bureau takes his instructions from the President, and is entrusted with the framing of a balanced budget. The Treasury is now limited to revenue and financial functions, the General Accounting Office being responsible for the book-keeping and auditing. Constitutional differences account largely for the contrast between British and French practice and the American.

It is obvious that the Finance or Budget Department will hardly be able to frame complete budgets without the assistance and co-operation of other departments. In fact the Finance Department is chiefly concerned with the balancing of the budget and for that purpose consolidates and reviews budget estimates submitted by other departments. If the task of enforcing economy is left only to the Finance Department, little or nothing will be achieved; for economy must be practised in the initial stages of estimating. It is there that economy is most easy and most effective. The heads of departments are the principal estimating officers and bear full responsibility for the policy implied in the estimates, which they review and consolidate before submitting them to the Finance Department or the Treasury. As the departmental head assists the Finance Department, so the heads of offices or establishments have to assist the departmental head. There is thus a regular hierarchy for estimating, reviewing and consolidating, the

object of such a procedure being to eliminate wasteful expenditure and enforce economy as far as is humanly possible.

The practice of the U.S.A. till 1921 in this respect was unique ; for departments sent their estimates and reports to the legislature independently of the Treasury or the President, thus making the report of the Secretary of the Treasury a mere clerical compilation. Now, however, Congress will not entertain any request from a department unless it is recommended by the President This makes for unity in administration and for budgetary balance.

Time of Preparation

The next question on the preparation of the budget bears on the suitability of the time for getting the estimates ready. Given the country's fiscal period, the budget should be prepared as near as possible to the commencement of the fiscal year to which it relates. Estimates in France have to be got ready from twelve to fourteen months before they actually go into operation. In the U.S.A. the gap is of seven months. In our own country, as in England, less than five months elapse from the first handling of estimates by the Finance Department to their presentation to the legislature, though of course offices and establishments are required to commence their budget preparation somewhere in the month of August. The closer the estimates are to the period to which they relate, the more accurate they are bound to be, for with the lapse of time uncertainties increase. If the estimates are not fairly accurate the need for supplementary estimates will arise ; and once supplementary budgets become a normal feature of the financial procedure in a country, estimates are worse than useless. What departmental officer will take care to see that his estimates are exact, if he knows that later on in the course of the year there is bound to be a supplementary budget ?

The date of commencement of the financial year is more important in the case of revenue than of expenditure, and specially where revenue is derived largely from

agriculture and therefore gathered in at almost fixed periods.[1] Unless the date chosen is such as will give the Finance Department an opportunity intelligently to forecast the revenue for the year, the budget estimates will be a mere gamble, as the estimates of revenue in India, which, as a Finance Member once remarked, are 'a gamble on the monsoon.' Besides take such things as war or an economic depression. They have almost always necessitated a supplementary budget.[2] Expenditure, it is true, can for the greater part be fairly well estimated, and it is possible in extreme cases even to cut down expenditure by a policy of drastic retrenchment. Yet in times of war and acute distress an increase in expenditure is inevitable. Hence the necessity to prepare estimates as near as possible to the time when they are to be carried out.

However in most countries the date of commencement has been fixed by historical accident and continued by sheer custom. France and the U.S.A. are two examples, where the dates were changed more than once to suit budget estimating.

Framing the Budget Plan

While the Finance Department or Treasury is responsible for the budget, every department and every office has to supply the required material. The form in which this material is to be supplied is determined by the Finance Department or Treasury in consultation with the accounting and auditing authorities of the country. Although the audit by an agent of the legislature is primarily an 'appropriation audit', the accounts are so worked up as to lead to an easy compilation for that purpose as well as for administrative convenience. The form for estimates contains many

1. Land Revenue in India, for example, fluctuates widely because of natural and economic factors.

2. As Stourm remarks about the French budget : "Just to think that in October 1868 and 1869, the Imperial Government quite placidly prepared the budget for the years 1870 and 1871 ! War and the Commune are rare enough occurrences but how many incidents of less terrible character are liable to disturb the estimates of the Government ? Commercial crises, good or bad crops, market prices of merchandise, etc. can within a year's time greatly modify the figures showing the result of taxes and the total of expenditure".—*The Budget,* p. 99.

details. For instance, in every form there are columns to show figures for the past two or three years or even five years in addition to the columns for estimated amounts whether revised estimates for the current year or budget estimates for the next. The initial estimates are very detailed, for upon the careful scrutiny of these depend the economy and accuracy which sound financial administration can produce. Full particulars are given for every item, e.g., regarding officers and establishment, the strength, the salary of each or of a class, increments due, reasons for changes in strength and salary, etc., or regarding public works, the quantity of materials, cost per unit and other details. Along with these detailed estimates is given the executive or legislative sanction for the same.

Every section in an office or department draws up its estimates and the officer in charge is responsible for them. Here is the first opportunity to eliminate all waste and promote economy in what are apparently insignificant trifles. The estimates from sections are sent to the head of the office for scrutiny and consolidation. He is in a good position to judge the relative requirements of the different parts of his office and his review and criticism should go a long way towards economy. There are many small details which office sections are apt to overlook, as to economise on such details may tend to reduce their privileges or entail a little extra exertion. The head of the office is responsible both for accuracy and economy, and is expected to be the watch-dog of the Treasury or Finance Department in the local office.

Lastly the estimates are sent to the heads of departments who are in an excellent position to evaluate the needs of the respective offices under their control. They are expected to have better vision and more detachment than the subordinate budgeting agencies ; and are primarily responsible for the policy followed. That is why the head of a department in England is also an Accounting or Sub-Accounting Officer responsible to the Treasury. He has the power to enforce economy as head of the office ; he has the duty to do it as Accounting Officer. A similar system

prevails in India. Heads of offices send their estimates to higher officers, the Controlling Authorities, who perform the same functions of scrutiny and consolidation as the officers subordinate to them but from a wider point of view. Lastly the administrative department in the secretariat scrutinises all estimates coming from heads of offices and then forwards the consolidated statements with its remarks to the Finance Department. The Treasury in England, the Budget Bureau in the U.S.A. and the Finance Departments of the British Dominions and of our country are the final departmental authorities on estimates. All appeals from the Finance Department lie to the cabinet or President. This system allows of a number of checks before the estimates are formed into a budget. The authoritative control of the Finance Minister and his Department is a *sine qua non* not only for a united but also a balanced, accurate and economical budget.

Along with detailed estimates which are framed by the organisation units of the administration and expressed usually in terms of objects, groups of allied objects, lines of performance or functional relationships, there is also a great deal of supporting data. Part of this supporting data is given in the particulars columns of estimate forms ; in cases where statistical or other data are required, there are separate schedules and notes that follow the estimates. For revenue estimates these statistics are very important. For certain state undertakings cost data and cost accounting are essential. Revenue estimates are presented by the agencies that collect them and are framed according to the sources from which income is derived.

IMPORTANCE OF ACCURATE ESTIMATING

Either estimates are accurate or they are not estimates at all, but just guesses. If estimates go wide off the mark, the budget becomes a failure and calls for a corrective in the form of a supplementary budget. Estimating demands trained men, men with experience, intelligence, sound judgment, an ability to read the future and sincerity. "Wisdom enables those engaged in preparing the budget

to see the future clearly—as clearly as possible," says Stourm, "sincerity compels them to state the truth when they have ascertained it. These two qualities go hand in hand."[1] Experience is also a necessary quality which improves wisdom. Some estimates of course are merely a matter of arithmetic, others require a fair knowledge of events, sound judgment and experience, and there are still others which require all the attention of a trained staff. Unless the estimates that form the budget are accurate, there can be no financial plan ; rather there will be what are called manipulated budgets. And to have such budgets is to destroy a financial system. Such budgets are no index of a country's solvency, no guide to the members of the legislature, rather a source of confusion to the administration.

However there are times when an economic depression or war or catastrophe will entirely upset the calculations of the budget. Everyone easily understands these difficulties ; what is objected to is habitual miscalculation making the use of supplementary budgets a normal feature of the financial procedure of the country.

Methods of Estimating Revenue

Revenue estimates have, of necessity, to be prepared by the Finance or Revenue Departments. In England it is the revenue departments that prepare them, chiefly the Statistical Office of the Board of Customs and Excise, in France the Ministry of Finance, in the U.S.A. certain Divisions of the Treasury Department for the Bureau of the Budget, in India at the centre the Central Board of Revenue which forms part of the Finance Department and in the provinces the Revenue Department. Three methods have been in use : the automatic method, the method of average increases and the method of direct valuation. The first is employed in France but is very inelastic. It is called "the method of the penultimate year." By this method the estimates for the budget year are simply the actual revenue receipts of the most recently completed

1. *The Budget*, p. 170.

financial year, that is, the last but one preceding the budget year. The drawback of this method is that it assumes a stationary period. It produces underestimates in times of prosperity and overestimates in times of depression. Hence the French tried to base them on the actual receipts of the twelve months nearest to the date of framing the budget, i.e. the penultimate period would move six months closer to the budget year. The French Finance Minister and the Parliamentary Finance Committees approve of this method "in order to shield their sincerity from any possible suspicion."[1]

The second method is that of average increases and was used in France when the previous method produced underestimates, as increases in revenue from direct taxes rose rapidly by leaps and bounds. Hence to the figure given by the penultimate year there was added the average increase for the preceding three, four or five years. Less than ten years later receipts, owing to war and other causes, began to decline and the new method gave overestimates larger than those the old one would have given. The French then returned to the automatic method. However, the method of average increases has been followed by many local and state governments in the U.S.A. "The averages are applied to the receipts of the last completed fiscal year either as increments or decrements depending on conditions,"[2] and the method has proved successful for sources of revenue which are fairly constant or change at some given rate from year to year.

The third method is flexible and is used in England, the U.S.A., Germany, India and the British Dominions. The British Chancellor of the Exchequer is in a very favourable position as he presents the budget in the first week of May, and thus may estimate revenues on the basis of the year just ended and with a knowledge of conditions at the commencement of the fiscal year. The method of direct valuation depends largely for accurate estimates on the judgment of the estimating authorities. In England, however, this judgment is always "seasoned with experience and fortified

1. Rene Stourm, Ibid., p. 173. 2. A. E. Buck, op. cit., p. 177.

by statistics."[1] Proof of this lies in the fact that in the last ten years, in spite of the economic depression and uncertain business conditions, there has never been a variation of more than 2.5% between total estimates and total collections. In the United States, however, the variations have been from 8% to 24%, and in 1931-32 estimates exceeded actual receipts by 47%.

METHODS OF ESTIMATING EXPENDITURE

Expenditure estimates have of necessity to be drawn up by responsible officers in different departments, offices and agencies of the government. No doubt the estimate forms contain a few instructions, and the comparative figures of past and current years may be of some use. But above all, estimates of expenditure will depend for their accuracy on the experience, judgment and foresight of the officers concerned. For accuracy too there must be a detailed analysis, following the sub-organisational or functional divisions of the departments. As was mentioned above, it is during the preparation of the initial estimates that the greatest care is required, for it is at this stage largely that economy can effectively be decided upon.

In framing estimates though the past is of course a guide, yet estimating officers have to gauge the financial trends of the present and their possible effects in the future —a task that is difficult but not impossible, for "special emergencies apart, expenditure is well within the field of rational prevision."[2] In practice a large part of the government's expenditure is constant, being regulated by statute or administrative rules or contracts.[3]

1. A. E. Buck, Ibid.
2. C. F. Bastable, *Science of Public Finance*, p. 741.
3. "If governmental expenditures are divided into groups according to character, namely current expenses (operation and maintenance), fixed charges and obligations, acquisition of properties and debt retirement, it will be found that the second and fourth groups can be mathematically calculated, that the third can usually be fixed within a maximum amount and that only the first group must be estimated on the basis of services, quantities, prices and conditions. And even current expenses may contain some constant factors such as statutory salaries. Hence governmental expenditures which must be estimated by indirect processes rather than by direct valuations are reduced to 50 or 60 per cent of the total".—A. E. Buck, Ibid., p. 175.

Classification and Contents

What should the budget contain, and how should the contents be presented, are allied questions, which have been treated at length in the previous chapter. Here then it will suffice to note the practices in a few countries ; for the documents included in the budget vary from country to country. The French budget is a voluminous document running into twenty volumes and containing over 6,000 pages of quarto size. The first volume contains a message from the Minister of Finance and the Minister of the Budget commenting on their own proposals and those of their colleagues, the text of the budget bill (which comprises the general and annexed budgets, special provisions and means of operation and annual provisions), and summary and explanatory tables.[1] The other volumes contain the detailed estimates in support of the first. In the U.S.A. there is a single document in three general parts : (i) the financial plan in a balanced statement together with a budget message and summary tables, charts and schedules, (ii) the detailed estimates of revenue and expenditure, comparative and cost data, and general statements on the financial condition, (iii) the budget bills e.g. the revenue, appropriation and borrowing measures.[2] In England under the term 'budget' is properly included only the speech of the Chancellor of the Exchequer introducing not the estimates of expenditure but the revenue proposals after the commencement of the financial year. But the Book of Estimates is in different parts, civil, army, admiralty, air-force and revenue. Since 1928 the budget has been divided into "ordinary revenue and expenditure" and "self-balancing revenue and expenditure" ; the first being in the nature of a general budget, the second the budget of major public undertakings, chiefly the Post Office, which are self-supporting. In India at the centre there are the general and railway budgets, the latter being introduced and discussed before the former. Estimates of the general

1. Vide Rene Stourm. *The Budget*, p. 200.
2. Buck declares that it is only from 1934-35 when President Roosevelt submitted his budget to Congress that there has been a real balanced summary of the budget.—*The Budget in Governments of Today*, p. 134.

budget are in three parts, Civil, Defence Services, and Posts and Telegraphs.

B. Legislation of the Budget

THE 'BUDGET RIGHTS'

To prepare the budget is the function of the executive ; to authorise it is the privilege of the legislature. In both the parliamentary and presidential types of government, the legislature controls the nation's purse—a right which in the older democratic countries as England and France was wrested from the executive not without a long struggle.

Till 1921 the United States had a 'legislative budget'. Several committees of Congress scrutinised the estimates, examined departmental heads, who took the opportunity of presenting their requirements directly to Congress without the previous sanction of the Chief Executive, and drew up all revenue bills and appropriation measures. Even after 1921, though there has been a unified executive budget submitted to the legislature, it has sometimes been changed beyond recognition before being voted upon,—a feature of frequent occurrence in France as well.

The British Parliament respects the budget of the executive by restricting its own powers of effecting changes. Executive recommendation is required for all measures relating to taxation or expenditure, which further the legislature may reduce or reject but never increase.[1] This rule prevents the abuses of 'log-rolling' and irresponsible budgeting which are seen in France and the U.S.A.

The present tendency, however, is "to focus the attention of the legislature more and more upon the examination, criticism and approval of budgetary proposals submitted by the executive,"[2] functions which modern legislatures are in a better position to perform than frame the budget. But if the budget prepared by the executive is at all to be respected,

1. In India and the Dominions such restrictions are embodied in the constitution.

2. A. E. Buck, Ibid., p. 101.

there is need to give it power to determine the budget partially. The principle of executive recommendation mentioned above will give it the necessary influence in the legislature. If the executive has taken pains to frame a balanced plan, it must be adhered to ; for " were the balance of revenue and expenditure liable to be upset by any ill-formed, sudden and comparatively irresponsible action on the part of a private member, the nation's finances must soon fall into wild disorder."[1]

In the Japanese system the executive largely determines the budget, as certain expenditure requirements amounting to about three-quarters of the national budget may not be altered by the Diet without the concurrence of the executive. In France and the U.S.A. the budgets prepared by the executive are of an advisory nature, as they merely form the basis on which action may be taken. There have been occasions when in France new plans have been devised by the legislature, as a result of bitter political conflict. In the U.S.A. also political parties play an important part ; for where the executive and the majority in the legislature belong to the same party, the proposals of the executive stand a fair chance of being accepted.

Another method to secure executive influence in parliamentary governments is to give the executive the power of dissolving the legislature. In France through disuse the executive has lost this privilege, and so has no means of bringing the Chambers to respect its plans. " The French Chambers," says Jeze, " can vote expenditure as they please, for the objects which they consider necessary to the country, in the amounts which they deem appropriate for the public needs. They may create new objects of expenditure and abolish old ones."[2] The budget in France has been the acid test of a ministry's strength ; there have been occasions when three or four ministries successively have been defeated on the budget. The U.S.A. constitution is based on the theory of the separation of powers and the executive cannot, therefore, dissolve the legislature.

1. E. H. Young, *The System of National Finance*, p. 57.
2. Quoted by Buck, op. cit., p. 92.

In most countries, however, no matter what the power of the legislature, the Chief Executive possesses the right to veto, not single items, but whole bills. In parliamentary governments this power can hardly be used without leading to a political crisis. In presidential governments the veto is a means of having the bills discussed again and passed by a solid majority (sometimes two-thirds or three-fourths). Even in such countries, however, the use of the veto leads to political conflict ; often the veto is the result of a conflict between the executive and the legislature. In general the power of veto is not constructive so far as financial planning goes ; it does not promote or bring about harmony between the executive and the legislature.

The relations between the executive and the legislature in India are outlined in chapter VI. Suffice to mention here that the British model is closely followed though owing to the lack of full self-government the executive, specially at the centre, has constitutional powers to determine a very large proportion of the budget.

Composition and Powers of the Legislature

All modern legislatures in national states are bicameral, the lower house consisting of younger and popularly elected members and the upper house of more conservative " elders," often elected indirectly. Wherever the bicameral system exists the question of the relative powers of the two houses must always spring up. But there is this special difference in the two houses which needs emphasis ; the lower house usually possesses the sole right of initiating money bills and other financial measures, and a deciding voice on them, should there be a conflict with the upper house. In short in financial matters the lower house is usually supreme.

In England, for example, the House of Lords has hardly any power over money bills, not even the power, possessed in regard to other bills, to delay it for two years. Of all the upper houses the United States Senate is the most powerful and in practice makes its voice felt. It has often re-written

appropriation and revenue measures; after 1921 it has opposed the President also. It has neither constitutional nor customary restrictions set on its actions.

The Japanese upper house has almost equal powers with the lower. The Canadian Senate is very weak. The Australian is stronger than most second chambers of the Dominions. It has the power, not to amend, but to reject money bills. In India the present Council of State is weak but in the federation it will have almost co-ordinate financial powers with the Assembly; in the provinces where the bicameral system prevails, the lower house is supreme.

The French Senate may not initiate finance bills. But on the subject of financial powers there has been much controversy between the two chambers. It has been conceded that the Senate may reduce appropriations which have been voted by the Chamber of Deputies. The Senate now insists on restoring items of appropriation which the ministry has recommended in the original budget but which have been reduced or eliminated by the Chamber. The Chamber has disputed this right for years but it now permits the use of it when the budget is before the Senate for the first time. These powers of the Senate are a great help to the ministry, which frequently submits to an amendment in the Chamber, for it counts on the Senate to restore the original clause. The Belgian Senate is not as strong as the French Senate, in spite of the similarity between the French and Belgian political systems.

The Reichsrat of Germany after the war of 1914-18 was a peculiar upper house. It neither criticised nor suggested amendments nor prevented haste in legislation. It was merely a preliminary chamber voting on cabinet and other measures before they were submitted to the Reichstag which could override its decision at any time.

Deadlocks under the bicameral system are likely to occur. One solution is that of a joint sitting, as that contemplated for the Federal Legislature in India. Another is dissolution of the houses, if possible,—a solution which is very effective to secure executive influence in the legislature

but which may unfortunately, as in the English House of Commons, tend to curtail the powers of the legislature in course of time. The Australian method is a combination. If the Senate rejects a bill passed by the House of Representatives, the House may repass it after three months, and if the Senate again rejects it, the Governor General may dissolve both houses simultaneously, so that the general election is a sort of referendum on the bill. After the election if the houses do not still agree, there is a joint session and the majority vote decides. In such voting the lower house which has twice the number of members as the Senate is clearly at an advantage. In the U.S.A. the conference method[1] is used.

The extent of legislative authority varies from country to country, and depends considerably on the constitution of the country, the state of public opinion and constitutional practice. Where there is a Dictator, the legislature loses its independence—usually it is packed with members from the Dictator's own party, as in Italy and Germany today. In England Parliament is sovereign ; yet because of self-imposed restrictions, the privileges of individual members are curtailed ; and this has a very salutary effect on economical financial administration. No member may propose increases in an appropriation or tax measure. In actual practice, however, even to reduce expenditure items would lead to a cabinet crisis, as the ministry would take such reductions as votes of no-confidence. The executive possesses the power of dissolving the House and so can always make party members fall into line, specially over minor changes. As regards taxation, the matter is different. The House of Commons may change details of revenue and taxation measures without precipitating a cabinet crisis. This follows from the old constitutional principle that only Parliament can vote taxes.

In France and the U.S.A. individual members of the legislature have hardly any restraints imposed on their private resolutions ; though in a few of the states of the U.S.A. they may reduce or reject but not increase the expenditure proposals contained in the governor's budget. Hence

1. Vide Ch. II, *Legislative Consideration of the Budget.*

the many abuses with which the world is familiar, and defects in the financial system arising from a lack of adequate executive initiative in the preparation of the budget.

Co-operation between the Legislature and the Executive

When in a previous section it was said that budgetary initiative ought to be conceded to the executive, it was not implied that the legislature and the executive should work as water-tight compartments. One of the important and desirable features of any sound system of financial administration is the practice of close and harmonious working between the two.

Lack of co-operation is a peculiar feature of presidential government. In the U.S.A. there is no member of the President's cabinet present on the floor of the legislature to defend the estimates and to answer criticisms and objections. The efforts of President Taft[1] to remedy the situation were of no avail and hence in spite of the Budget and Accounting Act of 1921 the defect continues. In parliamentary governments the executive being really a committee of the legislature, there can be no discord between the two. But the danger here is that if the executive is too powerful, it makes every reduction in estimates a test of confidence as in England ; if it is relatively weak as in France, the legislature may change the budget beyond recognition, thus

1. President Taft in connection with the report of the Commission on Economy and Efficiency took the view that an arrangement by which cabinet members could take their seats in each house of Congress "would greatly facilitate the business of Congress in getting at the facts through the interrogation of Members of the Administration on the floor of each house ; and it would give the members of each house a clear conception of the needs of government as the Administration thinks them to be, backed by arguments of men who must by reason of their duties know what they are talking about. Indeed the very function thus added to the others of the Cabinet members will stimulate them to a closer attention to their departments and a more intimate knowledge of their working."—Message to Congress on the Commission's Report. Dr. Cleveland, the Chairman of the Taft Commission, approved of this recommendation, for "the President and the Cabinet should take the initiative and then stand the test of open public questioning, criticism, and discussion before Congress." When the Act of 1921 was passed, nothing was done about this important proposal.

doing away with budgetery balance and harmony which is so necessary for the budget.[1]

It seems that co-operation in budgetary matters must be extended, if it is to be helpful and constructive and without friction, before the budget is introduced to the legislature and through them to the public. The problem of co-operation has unfortunately not been solved. In England the expedient of an Estimates Committee has proved a failure ;[2] in India there is the Standing Finance Committee whose duty is chiefly restricted to the scrutiny of new items of expenditure.

Legislative Committees

Within each legislative body the committee system has been developed for the efficient despatch of business, financial or otherwise. The committees may be committees of the whole house as in England where there is the Committee of Ways and Means and the Committee of Supply, or as in France a Finance Committee for each Chamber, or as in the U.S.A. separate committees for revenue and expenditure.

The English system of committee of the whole house enables a full and frank discussion of the subject on hand. The Speaker leaves the Chair and the rules of debate are relaxed. The Committee of Supply votes the estimates which are presented ; and then the Committee of Ways and Means sanctions payments from the consolidated fund and also authorises taxes to produce income for the consolidated fund.

1. Higgs has pointed out both these defects very forcefully when he says : "so you have the budget prepared and laid before the House of Commons and the country, and then, when its defects become apparent, you find you cannot get them altered or amended, because the prestige of the government is involved." And speaking of the French Finance Committee, he says : "the Finance Committee goes through the budget and sends for officials, merchants and experts, and bankers and people who tender and offer their evidence. It hears what is to be said for and against the budget proposals, and it knocks the budget about, cuts it to pieces, amends it, increases it here, and reduces it there, so that when it is brought back to the Chamber of Deputies the Minister of Finance cannot recognise it as his budget any longer."—H. Higgs, *Financial Reform*, p. 17.
2. Vide Ch. X, *The Legislature.*

In addition there is the Estimates Committee of fifteen members to examine and criticise estimates without interfering with the policy of the cabinet. It is purely an advisory body and was established with a view to effecting economies, but it has failed to achieve its purpose. The Public Accounts Committee is another standing committee, also composed of fifteen members, whose function is to go into the accounts with the help of the Comptroller and Auditor General.

In France there is a Finance Committee for each house ; and consists of 44 members in the lower house and 36 in the Senate, who are chosen from the different party groups by a scheme of proportional representation. Hence each committee is a microcosm of the chamber it represents and has for its chairman a *rapporteur general* who has complete control over its work and full responsibility of submitting its report to the chamber. These Finance Committees are admittedly powerful.

The U.S.A. had no less than eight appropriation committees which not only worked independently even in the same house, but had no responsibility to see that appropriations were balanced by anticipated income. Revenue bills were handled by another group of committees. Since 1921, however, there is a single Committee on Appropriations in the House of Representatives which consists of 36 members and works through eleven sub-committees. The majority party in the House has the largest number of members on the committees and sub-committees. The Senate also modified its rules in 1922 to provide for a single Committee on Appropriations which consists of 23 members and eleven sub-committees. Each sub-committee consists of nine members. Revenue bills are handled by the House Committee of Ways and Means and a Senate Committee on Finance, each consisting of 25 members. These committees work independently of each other. However, the chairmen of the revenue and appropriation committees in the same house keep in touch with each other, so as to bring revenue and expenditure proposals into balance as far as possible. In addition there are two committees on expenditures in the

executive departments, a Senate Committee of 7 and a House Committee of 21 members. In the House there is also a Committee on Accounts composed of 11 members.

SUBMISSION OF THE BUDGET

The date of submission of the budget differs in various countries. In the U.S.A. and France the estimates have necessarily to be presented many months before the commencement of the next financial year, so as to allow time for the legislative committees to scrutinise it. In India the estimates are presented with the budget speech, and financial bills introduced on the same day—in the middle of February for the provinces and on the last day of the same month at the centre. In England the estimates are presented in February and the Appropriation Act is not passed till about the month of August, while the finance bills are introduced by a budget speech during the first week of May. The policy of issuing estimates and finance bills on the same day in India is not without its advantages. A more balanced view can be taken of the income and expenditure sides of the whole budget.

The budget speech in England and India and the Dominions is one of the great speeches of the budget session and of the year. The lower house is usually packed to capacity, the galleries are full with visitors, and newspaper reporters wait with impatience to announce the government's policy for the ensuing year. The Chancellor of the Exchequer in England delivers his budget speech, when the House goes into the Committee of Ways and Means at about 3-30 in the afternoon, when the Stock Exchange has been closed for the day. The speech itself is carefully drawn up so as to be comprehensive in scope and attractive in presentation. The speech ranges over all aspects of government finance, the results of the last completed year, the revised estimates for the current year, the budget estimates for the next, the ways and means programme for the current year and the next and lastly—what the House and the public eagerly await—the

taxation proposals for the year.[1] At the end of the speech the members of the Opposition usually reply to the Chancellor, criticising his proposals and stating their own views. A. E. Buck considers that this procedure all in all, " affords the most perfect staging for the budget which any government has so far devised,"[2] and remarks that a similar procedure is followed by the Dominions and by Japan, but " often with less dramatic effect."

In contrast we have the American practice which makes the submission of the budget a mere incident in the day's routine. The message of the President is read by a clerk of the legislature. The effect of the message is lost ; no public opinion is roused over matters which concern the people intimately. If the executive officers could take the floor of the legislature " much of the work of the congressional committees on the budget, now being done in camera, would then be brought out in the open ; the President and his chief administrative officers would be put on their mettle before Congress ; and the public would know more about what is going on in the planning and administration of the national finances."[3]

Legislative Consideration of the Budget

As soon as the budget is presented, it is taken over by standing committees except in Great Britain where a committee of the whole is employed. In India the whole house

1. " The Chancellor's speech in introducing it, called the Financial Statement, contains a review of the finance of the year which has just closed, and gives the final balancing of that account. If there is a surplus, it goes by statute in reduction of the national debt. Surpluses paid over in this way are called the Old Sinking Fund. Any deficit will have been covered by borrowings. That matter cleared out of the way, he turns to his forecast of revenue for the current year, and compares it with expenditure already known, including any new expenditure already known, such as repayment of debt or fresh services, which the government may contemplate. He gives details of new taxation, and remission and alteration of the old. If he anticipates a surplus, he can use it to pay off debt, or to reduce taxation or on new services. If he anticipates a deficit he must impose new taxes, or increase old ones, or borrow. He gives the final balance sheet. He examines also the state of the national debt, and gives a general disquisition upon the condition of the country's finance, trade and prosperity."—J. W. Hills, *Finance of Government,* pp. 50-51.
2. *The Budget in Governments of Today,* p. 199.
3. Ibid., p. 200.

discusses it without the formality of going into committee. This is an improvement on the British system in that it saves a deal of time and unnecessary duplication. In Switzerland both houses consider the budget at the same time. In the U.S.A. revenue or appropriation bills are not considered by the Senate until the House of Representatives has taken action on each of them. Estimates are forwarded to the House of Representatives as soon as they are ready ; and the House Committee on getting these estimates parcels out the work among its sub-committees. These hold 'hearings' at which departmental officials are called in to give evidence bearing on their expenditure requirements which have been included in the estimates. The Appropriations Committee takes charge of the expenditure estimates ; the Ways and Means Committee of the revenue proposals. As the committees in the lower house complete their report on, and the House passes, the appropriation and revenue bills, these are sent to the Senate Committees on Appropriation and Finance respectively, where the process of scrutiny, holding hearings, etc. is again gone through.

In England the estimates are circulated in February, though the Chancellor's speech will only be delivered sometime in the first week of May. Discussion on taxation proposals in the U.K. takes place in the Committee of Ways and Means, to which the budget speech is delivered. Ramsay Muir is of opinion that in criticising taxation measures or reducing them the Committee of Ways and Means "is a suitable body for the purpose ; it is a committee of the whole House, but the whole House is interested in the taxes that have to be paid by the whole community and therefore the discussions are real discussions."[1] But the Committee of Supply which sanctions estimates of expenditure is hampered "by outworn rules of procedure ; " for "the House of Commons pursues national economy with the same rules of procedure it used when disputing with kings."[2] Debates in the Committee of Supply are political rather than financial ; for the Opposition chooses "the subject which is most likely to combine an attack on the government."[3] This is also

1. Ramsay Muir, *How Britain is Governed,* p. 225.
2. H. Davenport, *Parliament and the Taxpayer,* p. 116. 3. Ibid, p. 133.

partly due to the lack of information for a parliamentary debate on expenditure. An adverse vote is not likely on small matters as the government may make it a test of confidence and follow it up by a dissolution of the House.

To promote harmony between the executive and the legislature the Select Committee on National Expenditure, 1917, appointed by the House of Commons, recommended the establishment of two or three standing committees on estimates, composed of fifteen members each and provided with expert assistance in studying expenditure estimates. The Estimates Committee already in existence had failed to produce results because of the want of staff assistance. No action has been taken on these recommendations. This may well be due, as Ramsay Muir emphatically declares, to the fact that "the Cabinet is extremely jealous of any invasion of 'Cabinet responsibility'—even when the Cabinet itself has no time to deal with the problems that need consideration, and would be quite unable to tackle them if it had," and that "behind the Cabinet is the bureaucracy of the departments, hating the idea of any meddlesome interference by Parliament, and, probably thanking its stars that the estimates are presented in such a form as to make such interference impracticable."[1]

It is very interesting to note the time given to the discussion on the budget in France, England and the U.S.A. In England twenty days are allowed for the consideration of estimates in the Committee of Supply and these twenty days are scattered through the session till the first week of August. The discussion begins with a debate on grievances, now a meaningless ritual as parliamentary sovereignty is no longer disputed. Then comes the scrutiny of estimates ; but not all estimates are debated. The Opposition chooses the items to be discussed. "For eighteen days the House may discuss away", says Young, "but the nineteenth is a day of judgment,"[1] for on that day all remaining estimates are put to the vote.[2] On the twentieth the remaining report stages are

1. Op. cit. supra., p. 230.
2. E. H. Young, *The System of National Finance*, p. 62.
3. This procedure is technically called the 'guillotine'.

gone through. Hence it happens that about one half of the estimates are not discussed at all. However, those votes, which are important enough for party battle, are usually debated.

In France the attacks on the budget are also of a political nature and have been known to overthrow one ministry after another. Discussions on the budget last three months. The Finance Committee is in control of the budget in the Chamber of Deputies. It may defend the ministry's proposals or modify them ; and the chairman of the committee, the *rapporteur general*, will not hesitate to turn the budget to political purposes. When this committee reports the budget bill, discussion of it clause by clause begins, and this discussion is often made the occasion for ventilating private grievances or criticising the conduct of the government in general. The bill when passed by the Chamber of Deputies goes to the Senate to be there treated to a similar procedure.

In the U.S.A., in contrast, budget debates are a routine affair. The budget bills when reported by the Committee on Appropriations are considered again in a committee of the whole house. Each bill is steered through the house by a member of the Appropriations Committee, usually the chairman of the sub-committee directly in charge of the bill. On going into committee of the whole house, there is a general debate for two or three hours, often on irrelevant matters. Next the bill is discussed and voted clause by clause under 'the five-minute rule.' Any member may move amendments but he cannot address the house for more than five minutes on each clause. Few amendments are, however, made ; for, the house usually supports the recommendations of the Committee on Appropriations. After the bill is reported and passed as a whole by the House of Representatives, it is sent to the Senate where a similar procedure is gone through. However the Senate cannot increase amounts or add new items, unless it is to fulfil existing provisions of the law. Disputes between the two houses are common and the conference system is resorted to. But such conferences cannot add new items and must settle on a figure that is

between the larger and the smaller amounts voted by the two houses. Further, no new matters can be added and nothing can be changed except as regards the precise point of disagreement between them.[1]

Budgets are usually authorised on the revenue side by finance bills and on the expenditure side by appropriation or budget bills. The French budget bill is divided into chapters, and each chapter is voted upon. In England estimates are divided into 'votes' covering a service or group of allied services ; the American appropriations are mandatory and highly itemised and therefore inelastic.[2] In India the formality of an appropriation or budget bill has been dispensed with and there are only demands for grants —a demand being for a service or group of services administered by a particular department—which are later included in a schedule of authorised expenditure by the executive.

The Budget and the People

The budget is for the people and it is but right that they should be able, through the press and platform, to give expression to their views. In England, the Dominions and India a fair amount of publicity is given to the budget. In India the Finance Minister's speech is reported *in toto*. Speeches on the budget by ministers and opposition members are also reported though in a very summary form, except on

1. Buck is of the opinion that the conference system as used in the U.S.A., though it might expedite business, has several disadvantages. "It is inclined to be autocratic in the exercise of its powers, sometimes making changes in a bill which its authority does not warrant. It customarily meets behind closed doors to do its work and no record is kept of its acts. When it has reported to the two Houses, they must either accept its proposals without amendments or reject them *in toto*. If the proposals are rejected, another conference committee is appointed and the same procedure repeated." The Senate seems to be in a more advantageous position as its members possess more experience in legislative matters.—*The Budget in Governments of Today*, p. 212.

2. The appropriations in the U.S.A. are voted for small items and the executive is obliged to spend the full amount appropriated. Appropriations in India, England and most countries merely give the maximum which the executive should not exceed. This latter method is elastic ; if emergencies arise expenditure may be reduced. In the American system this is not possible, unless by an appeal to the legislature.

larger issues when the reports are fuller. Yet hardly any comparative statements summarising the government's finances as a whole are given, with the result that no reasoned judgment can be arrived at.

The need for publicity is even greater when the legislature may change the budget prepared by the executive to a considerable extent. Legislative committees might in such matters prepare a statement in the form of a balanced budget summary with supporting schedules and explanatory notes on all important revisions. Since 1922 the chairmen of congressional committees in the U.S.A. have issued statements at the end of each regular session giving a summary of appropriations made by Congress as compared with the expenditure as set in the President's budget. This statement is published in the 'Congressional Record.' The Treasury publishes before the opening of the fiscal year, a 'Digest of Appropriations' for that year. But this publication is too voluminous and detailed. The "Report to the People of the State on its Financial Condition" published by Governor Smith of New York during his tenure of office was of greater use to the public. It showed the appropriations made by the legislature for the coming fiscal year and the estimated income to meet them, explaining both in simple terms easily understood by the average citizen.

The provinces as well as the centre in India have started information series. These series during the budget session could be utilised to give convenient summaries, backed by some statistical tables, of the general financial position of government rather than only extracts from ministers' speeches. And when each demand is taken up, the policy of the government for the future as compared with the past, might usefully be elucidated. Democracy cannot exist unless the people can form judgments for themselves.

TIME OF VOTING THE BUDGET

The practice in India is to pass the budget before the year begins. No appropriation can be used until it is, not only passed by the legislature but also included in an

authenticated schedule of expenditure by the executive. France and the U.S.A. also complete all appropriation bills before the year starts.

The advantage in deferring the voting of appropriations till after the year has commenced is that complete information about the year that is ended is available to the legislature. Yet, on the other hand, this necessitates action by the executive for a time without reference to the proposed budget, and hence the legislature authorises temporary appropriations based on the estimates presented. This method is followed regularly by Belgium and frequently by France through the *douziemes .provisoires*, which are expenditure authorisations by months. Stourm disapproves of this device as being "wholly the result of parliamentary disorder." In France this method has been necessitated by political crises which prevent the budget from being passed in time.

In the U.K. Parliament passes 'votes on account' to enable the government to carry on till the Appropriation Act is passed. The Financial Secretary of the Treasury prepares an estimate of the amounts needed to carry on the civil services ; and this is authorised by a resolution of the Committee of Supply before March 31. In this estimate no new source, not already sanctioned by Parliament can be included. When this supply resolution has been passed, the Ways and Means Committee authorises issue from the consolidated fund of the amounts granted ; these are included in the Consolidated Fund Bill and passed.

The English system also provides for sudden, unforeseen emergencies by means of 'votes of credit' which are lump sum appropriations made by Parliament. In emergencies such as war or a severe economic depression, the executive has no time to frame the estimates and the money is urgently needed. Then the ministry asks for votes of credit which may extend to very large amounts chiefly in times of war. A vote on account is for the purpose of enabling government to carry on till the Appropriation Act is passed and is based on the total amount estimated by the

executive for that particular group of services. A vote of credit is a blank cheque. The executive will bring in the detailed estimates later, meanwhile it has the finance to prosecute the policies it is committed to.

In countries where the whole budget is on an annual basis, refusal or failure of the legislature to vote the budget bills in time is fraught with grave consequences. The whole administrative system comes to a dead stop[1]—no revenue can be collected, no expenditure can be incurred. And the effects of such a catastrophe make themselves felt in the public economy for a long time to come.

The French budget is voted on an annual basis. Where owing to legislative deadlocks and political manoeuvres the budget is not passed in time, the French legislature has even had to stop its clock on the eve of the fiscal year to preserve legal fictions ! The Japanese constitution provides for a continuation of the budget of the preceding year whenever the Diet fails to authorise the proposed budget. By the Polish constitution the President has the power to make the proposed budget effective by decree, if Parliament does not vote it by the opening of the fiscal year.

Supplementary or Additional Appropriations

The budget in practice always shows either a surplus or a deficit. If the administration foresees that expenditure

1. "To refuse to vote the budget ! One can scarcely conceive the consequences of such an eventuality. If the year was to open without the budget having been voted, the bond-holders would not get their interest ; nor the pensioners their pensions ; the tradesmen would beat in vain at the gates of the Treasury ; the officials would work without salaries ; the schools would be closed ; the Army would be deprived of its pay, of its livelihood, of its equipment, of its provisions. All the functionaries of the State, that is to say practically everybody would find himself affected ; the activities of the country would be paralysed. Taxes furthermore are no longer collectable and the sudden interruption of payments, not only immediately impoverishes the Treasury, but its effects are prolonged beyond the period ; the frontiers are no longer guarded, the gates of the cities are abandoned, bonded warehouses are deprived of inspectors, hence importers, wholesale dealers, truckmen, innkeepers, etc. and all the dealers in products subject to customs duties and taxation, immediately flood the country with tobacco, coffee, sugar, liquors, etc. free of duty. The immense administrative machine, which hitherto had in its grip every taxable thing, lets its prey escape. Smuggling, in a short space, can embarrass the public revenues for a long period."—Stourm, *The Budget*, p. 381.

is likely to increase beyond the legislative allotment,[1] there is nothing more reasonable than to provide for it in advance. Supplementary appropriations must be obtained before the year is over ; otherwise the audit authorities will treat the excess as unauthorised expenditure.

To ask for supplementary grants does not mean that the executive has no funds to meet that expenditure. The government may have surplus funds ; but it cannot apply them for particular purposes unless the legislature sanctions the required appropriations. In such cases budgetary balance is not disturbed ; surplus revenue is utilised to meet extra expenditure. Of course the Finance Department or Treasury looks into each case to see if the excess expenditure is really urgent, if the expenditure cannot in some way or other without loss to the public service, be postponed to the next year.

Supplementary grants are demanded only when the total of each demand is likely to be exceeded. It may happen that while expenditure on a part of an item has diminished, that under another has increased. A transfer from one subordinate head to another usually does not transgress the legislature's command.

The French method of supplementing appropriations is through the *crédits additionel.* Attempts have been made to curtail their use but they have been unsuccessful. Allix claims that they upset budgetary equilibrium and encourage extravagance, for the administrative offices often secure grants in this manner from Parliament which they could not secure through the regular budget.

In the U.S.A. the method of ' deficiency appropriations '

1. Hilton Young has some strong remarks on the subject of supplementary estimates. "Because of the long forecast that has to be made in preparing the estimates, supplementary estimates may often be a necessity but they are always a necessary evil......To allow the scheme once approved to be treated as something still fluid and liable to extensive modifications must infinitely weaken effective control, and supplementary estimates are the most harmful way of doing so. .... They are a diseased excrescence on the year's finance, and the skill and success in finance of the Ministry and the executive may be measured by their ability to do without them."—Hilton Young, *The System of National Finance,* p. 89.

has been used, or rather abused. The Act of 1921 did not remedy the situation. Deficiency appropriations in the U.S.A. amounted to about 10% of the total national budget for the year 1930-31 ; whereas in England for the same year supplementary estimates amounted to less than 2% of the total.

C. Execution of the Budget

When the appropriations and the revenue measures have been voted in full, as in most countries, or in part, as in the United Kingdom and Belgium, the stage is set for putting the financial plan into operation. But all is not plain sailing. Many problems and difficulties arise while the budget is being carried out. Revenue may not come in as was expected, and the need would arise for the executive to seek the approval of the legislature for the imposition of extra taxation. Expenditure for one reason or another may exceed or may be very likely to exceed appropriations, and the need would arise to have supplementary estimates sanctioned.

The execution of the budget entails three responsibilities : (i) that money is spent economically and according to the instructions of the legislature, (ii) that money is properly gathered from all sources without fear or favour, and pending payments to creditors kept in safe custody, and (iii) that both actuals of revenue collection and disbursements are closely watched so that all movements are kept under control.

Hence we shall deal in turn with the proper agencies for carrying out the budget, their organisation, and the methods they follow for collecting revenue and for spending; with the task of watching the progress of the budget so that the equilibrium or balance is maintained to the end of the fiscal year ; and lastly with the means adopted to secure budgetary control.

Interference by the Legislature

It is obvious that the executive ought to be charged, being the most appropriate body for it, with the execution

of the budget ; yet financial practice has not always been in consonance with this principle. Till 1861 when Gladstone established the Public Accounts Committee, the House of Commons attempted to control expenditure by placing restrictions on the issues of money from the Exchequer than by examining how the money had been spent, in other words, it attempted to supervise actual expenditure than to check the results. The French Parliament still limits executive action by restrictions, attached to each appropriation (crédit) ; in addition the *rapporteurs generaux* of the two chambers are required to watch and control the expenditure of these credits from month to month. Should the French Parliament perform such a task ? Is it fitted for that function ? Is it not, as Allix claims, a sort of usurpation of executive authority ?

In the U.S.A., Congress, in spite of the Budget and Accounting Act, has practically come to consider the administration as the fourth organ of the state. The appropriations are often made directly to the administrative departments and agencies. In addition they are mandatory and highly itemised, so that executive and administrative discretion and budget elasticity are reduced to a minimum ; worst of all, Congress even sometimes authorises some of its members or committees to supervise the actual expenditure of appropriations and the transfers between appropriations. As with the English House of Commons before 1861, Congress is not very much concerned with enforcing executive accountability after the budget has been executed.

In India, on the contrary, the executive is almost omnipotent. The vast administrative organisation all over the country under its control is responsible for the execution of the budget.

Executive Responsibility and Administrative Centralisation

Perhaps the best administrative system is one that fixes responsibility on the executive and through a centralised organization demarcates the financial powers of each

authority in the administrative hierarchy. Executive responsibility, centralisation, and adequate financial machinery are necessary for sound administration. If the executive must be responsible for the execution of the budget, then it must also enjoy a position of authority in the administration. This position and responsibility, however, depend on the type of government and the administrative organisation.

In a dictatorship executive authority is complete and absolute. If the Dictator fails to achieve his plans, it will not be owing to want of authority but rather owing to unsuitable administrative framework, faulty administrative methods, untrained or unreliable personnel or perhaps to the inherent defects of the plans themselves. In parliamentary governments the executive controls, and forms part of, the administration, and hence has general responsibility for carrying on the work of administration. This responsibility is secured by placing a minister at the head of every department, and by a hierarchy of financial authorities among whom the Finance Department is entrusted with the special task of maintaining the budgetary balance and enforcing economy and efficiency in the administration. Hence the Finance Ministership is one of great responsibility and privilege and eagerly sought for next after the Premiership. In a presidential form of government, the President is responsible in a general way for the task of administration. In the U.S.A. he has working directly under him a group of officers, called his cabinet and chosen for political or administrative reasons, to each of whom is entrusted a department of state. The Treasury is a department of state under the control of the Secretary of the Treasury. He is one of the most responsible heads of departments, but his position is very much inferior to that of a Finance Minister who is a colleague of the Prime Minister and a member of the legislature.

The degree of centralisation and therefore the efficiency of financial control varies with the powers possessed by the executive. The English system gives the executive large and effective powers, makes it the apex of the country's

administrative system and holds it jointly responsible to Parliament who are its masters. It has, therefore, complete control over the different administrative agencies, determines lines of policy and forms the connecting link between the administration and the legislature. Executive authority in financial affairs is in practice wielded by the Treasury, which has for its head the Chancellor of the Exchequer. A similar system is followed in India and the Dominions of the British Commonwealth. The French system though parliamentary in form, makes for decentralisation by increasing the powers of individual ministers, and curtailing the powers of the Finance Department by handing these over to be exercised by the Finance Committee of the two chambers. The French legislature has of late even attempted to control the rate of expenditure through these committees. The German financial system has always inclined heavily towards centralisation. The executive possesses large powers ; and the Finance Minister and his department have always been given much authority as regards the execution of the budget. In Russia it is the Commissariat for Finance that administers the financial plans drawn up by the Central Committee of the Communist Party. In the U.S.A. in spite of the Budget and Accounting Act the authority of the President as regards the execution of the budget has not increased ; powers are divided between the executive and the General Accounting Office, which exercises check over all receipts and payments.

In France and the U.S.A., the Treasury or Finance Department is separated from the Bureau of the Budget. In the former country this separation has caused the appearance of the plural executive, the Minister of Finance and the Minister of the Budget, who are jointly responsible for the budget. Everybody realises that such an arrangement is purely a political makeshift. In the U.S.A., however, both the Secretary of the Treasury and the Director of the Budget are the nominees of the President, entrusted with the carrying out of his policies. Hence the clash there will not be so great as in France where political bonds have always been loose.

Financial Organisation

To the adequacy of financial organisation and a trained and reliable staff attention has already been drawn in the introduction to this work. Their importance in working the financial machine can never be over-estimated. Moreover in parliamentary governments it is essential that amateurs at the helm of the state should be assisted by experts in permanent service, experts who will work as willingly under one amateur as another. But experts are made through experience and training ; and, therefore, the 'spoils' system which prevails in the U.S.A. cannot but be condemned.

In executing the budget there are two separate agencies ; one concerned with the collection of revenue, the other with expenditure. In the English system the whole financial administration centres round the Treasury, which is nominally controlled by a Board of Commissioners but in reality by the Chancellor of the Exchequer, and his assistant, the Financial Secretary to the Treasury. The Treasury is divided into three main divisions—finance, supply services, and establishments—called departments, each in charge of a Controller. Among them they deal with all questions relating to the budget and departmental estimates, personnel, taxation, accounts, and all other matters connected with finance. Revenue collection is carried out by the Board of Inland Revenue and the Board of Customs and Excise, both of which are under the direct supervision of the Treasury.

Payments to the different departments are entrusted to the Pay Office under the Paymaster General, which is one of the offices under direct Treasury control. But before the Treasury can transfer moneys for the consolidated fund services from the consolidated fund to the account of the Paymaster General, the concurrence of the Comptroller and Auditor General is necessary. This power of issue does not involve any real control over expenditure ; he simply sees that the proposed issue has the requisite parliamentary sanction for it. With regard to supply services, however, he cannot check the issues, but only criticise the misapplication of money.

In order to secure economy in the day to day working of the different departments, the actual spending is placed in the hands of the 'Accounting Officer' who is usually the permanent head of the department. The duties of the Accounting Officer do not relate to account keeping but to financial responsibility. He is responsible for payments made by his department and for the departmental appropriation accounts which are submitted to Parliament at the close of the financial year. He is in an excellent position to effect economy and promote efficiency ; for he has the responsibility and the requisite power to do so. It is this Accounting Officer who appears before the Public Accounts Committee to answer for the actions of his department.

In the French system the Minister of Finance has charge of the collection, custody and disbursement of all revenues. With regard to expenditure his authority is limited, for cabinet ministers as heads of the different departments have considerable responsibility for their own payments. The Minister of Finance has three main duties ; to control disbursements with respect to the current condition of the treasury, to keep payments within the limits of legislative appropriations and to supervise the actual payment of government creditors. Every month he estimates the funds in the treasury and notifies each minister of the amount he may utilise during the next month.

Each minister controls the expenditure of his department. On his authority vouchers are drawn but unless approved by a 'Controller of Incurred Expenditure' who is an agent of the Finance Department and who ascertains if there are appropriations enough to cover them, no payments may be made. An appeal from the controller lies to the Finance Minister. However, the powers of the controller are not exercised in practice, and so the system suffers in its efficiency. Each minister keeps the accounts of his department according to the regulations of the Minister of Finance.

In the U.S.A. there are three financial authorities, the Secretary of the Treasury, the Bureau of the Budget, and the General Accounting Office. Financial administration is

more decentralised and, therefore, less effective than in parliamentary governments. The Bureau of the Budget deals with estimates. The Treasury collects the government's revenues, has the custody and management of the government's funds, sees to the service of debt, issues warrants against appropriations and submits periodical reports on the financial condition of the treasury and the state of the appropriation accounts. The General Accounting Office under the Controller General is an independent establishment of the government and deals with the settlement and adjustment of claims. Hence it is both an accounts and audit authority and, therefore, encroaches on the tasks of the executive. The Controller General provides the check on receipts and expenditure by countersigning all warrants drawn by the Secretary of the Treasury for depositing or withdrawing moneys from the treasury. Each department of the administration keeps its own accounts and it is these accounting agencies that furnish information when the budget is framed. They submit monthly reports to the Budget Bureau on departmental expenditures.

Budgetary Equilibrium and Control

The executive must bear the responsibility for seeing that the budget as sanctioned by the legislature is carried out. There are certain difficulties in the way for the solution of which the executive must be entrusted with a large amount of discretion. Hence the practice of highly itemised budgets and mandatory appropriations, prevalent in the U.S.A., must be deprecated ; for the result is that in times of stress government cannot balance the budget by cutting down expenditure and, further, cannot make minor adjustments by transfer from one small item to another.

Watching of actuals is one means to see that at all times government has sufficient funds to meet its expenditure requirements. Hence the necessity for a ways and means programme. Expenditure and revenue are spread over the whole year and arrangements are made for bridging over any difference between the two. The British Treasury requires each department to submit a spending plan, which

when approved becomes the basis of expenditure control during the year. The French Finance Minister requires monthly statements from ministers as regards their probable requirements, which he then compares with receipts.

Again by means of periodical reports and revised estimates the executive is able to find out if revenue is coming in and expenditure is incurred at the anticipated rates. If it discovers variations, it has the power to adjust on the expenditure side.

Other ways for adjusting actuals to authorised expenditure are by transfers, executive grants, contingent funds and percentage reserves of appropriations. Transfers or *virements* are widely used in England and France. It is said that these transfers make for accuracy in estimating and for economy in expenditure, because the administration knows that unforeseen circumstances can be thus provided for. Executive grants are grants made by the executive on its own responsibility, for which sanction will be sought later from the legislature. This method is also used in England, though the Treasury is very strict in seeing that the expenditure is really very urgent. Contingent funds are small amounts kept at the disposal of certain authorities or of the government generally to meet emergency expenditures, or sometimes to supplement regular appropriations. There is a Civil Contingencies Fund in the U.K. to meet small contingencies in the civil departments. Lastly, there is the device of percentage reserves by which a certain percentage is withheld from the spending agency at the beginning of the year. These amounts are placed under executive control and utilised as conditions demand. The reserve is from 2% to 10% of the appropriations. This method has found favour in the United States.

To exercise budgetary control the executive must have effective instruments, the chief of which are a system of accounting and reporting, a careful check on income and expenditure, a methodical handling of public funds, central supervision of services and commodities and, what is often forgotten, continual research and investigation for public economy.

A sound system of public accounting is indispensable to the executive as well as the audit authorities. For effective and continuous financial control, for balancing revenue against expenditure, for determining the true costs of a particular service or department or project, for framing budgets in the future in the light of past experience, a large institution like the government, even more than commercial enterprises, needs the keeping of elaborate accounts on a scientific basis. The government must maintain its credit and its solvency ; but if it allows expenditure to outrun revenue it will be forced into debt. Like any private individual, the executive must administer its finances with prudence and economy—for that it must at all times know the true state of its financial affairs.

Accounts are necessary for the auditor that he may exercise a wholesome check on the integrity and carefulness of the administrative officials and that he may ascertain whether the will of the legislature as expressed in the appropriations has been carried out faithfully and economically.

The government system of accounting differs from commercial systems, as the state does not work for profit. Commercial enterprises keep accounts to show their relations with various parties, the profit or loss on the capital invested, and their financial position, whether they are solvent or insolvent. These accounting principles are followed with suitable modifications in the commercial or quasi-commercial concerns undertaken by the government, though such accounts are outside the regular government accounts. Unlike an individual or commercial enterprise, government first decide on the different expenditures to be incurred on the various activities which they deem necessary for the country, and then provide for the ways and means to raise the required revenue. Government are not interested in making profits but in governing the people and administering the different departments of their activities as efficiently and economically as they can. They are interested in seeing that the budget estimates of revenue and expenditure for the year, accurately forecasted and carefully balanced, are justified by facts and, according as there is a deficit or surplus at the end of the

year, that activities are curtailed or expanded or taxation increased or reduced.

Briefly, therefore, the purpose of a government's accounts is " to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency," while that of commercial accounts " to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern."[1]

Accounts may be kept on a cash or accrual basis. Cash accounting includes only the actual receipts and payments for the financial year and hence at the end of the year the accounts are promptly balanced. Incomplete items relating to the budget just ended must be taken to the next year's accounts and provided for in the fresh budget. Accrual accounting includes not only the actual transactions relating to the current budget but also those incomplete at the end of the year. The budget is invested with a sort of personality. All transactions pertaining to a particular budget are debited or credited to it, so that accounts are kept open till the last item of that budget has been disposed of, even if such a procedure takes many years.

Accounts in England and India are on a strictly cash basis. The year begins on 1st April and accounts are closed at the end of office hours on 31st March.[2] The French system is on an accrual basis and budgets are known to have been kept open for twenty years and more ! The practical result is this, that the audit report on cash accounts is ready for examination by the legislature a few months after the end of the financial year ; while that on accounts kept on the accrual basis is delayed so long as to be almost

1. *Introduction to Indian Government Accounts and Audit*, p. 6.

2. The statement that the accounts are balanced at the close of business on the last day of the financial year, is perhaps not quite correct, as the accounts are kept open for a month or so for cheques, etc. issued during the last days of March to be cashed and thus taken to that year's accounts. However, the statement is substantially correct, as no new transaction relating to the year is taken after the close of that year.

useless for purposes of financial control, though this system is more scientific than the other. However it is claimed for the cash system that in practice it gives a fairly correct picture of the financial condition of the country and the execution of the budget, as almost equal amounts of incomplete transactions are carried to the following year and these amounts, where the executive is efficient, are small. Most governments have adopted the cash basis because of the quick reports that are available.

Reports are as important as accounts. They summarise facts and figures and therefore give a bird's eye view of the problem to be tackled. To the public, reports are the means by which they can get some light thrown on the technical and complicated details of administration. We may recall here the audit reports which aid the Public Accounts Committees of the legislatures, and the memoranda prepared to explain budget estimates. To the executive and administrative authorities they are the means by which effective and continuous control over different activities is exercised. Such reports are made periodically.

Methodical handling of public funds is provided for in every state and is necessary for revenue as well as expenditure purposes. The custody of funds and resource operations must be the concern of every government, and in this business they are usually helped by the Central Banks. In India this methodical handling is secured through the Treasury Rules issued by the Governor General or the Governor, and Financial Rules framed by the Finance Department.

Central supervision of the acquisition and use of services and commodities also provides for efficient budgetary control. In England it is the Treasury that controls the strength and salaries of the personnel in each department, and regulates expenditures for materials, equipment and quarters, though not so extensively as in the former case. In India, such supervision devolves on the Finance Departments.

Research and investigation in the direction of public economy is also very desirable but as yet has not been very much developed. In India, the Finance Department is

expected to be the watch-dog of public finance in every way and it always welcomes suggestions from all officers of the government for improving the administrative system or effecting economy. But there is no specific organisation to deal continuously with the knotty and difficult problems connected with economical financial administration.

D. Accountability for the Budget

The importance of audit as an instrument of financial control has been recognised not very long ago. Legislatures have attempted and, as we have seen in the preceding section, some still attempt to control the administration in many ways, ways which have only resulted in interference with the executive. Most countries now provide for an audit organisation.[1]

Function and Objects of Audit

Audit is concerned not so much with economy as with regularity. Audit investigates not the policy of the executive, but whether in the execution of that policy the executive has observed ordinary accepted standards of financial propriety, whether it has carried out the will of the legislature and eliminated all wasteful expenditure. Audit checks the accounts against fraud, carelessness and technical errors, and reports whether they exhibit the true and correct financial position or in what respects they fail to do so. For the efficient discharge of these functions it is obvious that the auditor should be independent of the executive and accounting agencies.

From this point of view India presents several peculiarities owing to the combined system of audit and accounts that prevails. The Auditor General of India functions by statute in a double capacity, for he has the responsibility of keeping the accounts and of auditing them. Such an arrangement *prima facie* cuts at the very roots of audit and a full discussion of the present system of audit and accounts is

1. The U.S.A. is an exception. The General Accounting Office is a peculiar device utilised rather to check expenditure during the year than to audit the accounts after the administration has completed its transactions.

reserved for a later stage.[1] On principle, accounts should be kept by those agencies which receive and spend moneys.

The objects of audit may be said to be fourfold : (*a*) to detect fraud, (*b*) to detect technical errors, (*c*) to detect errors of principle and (*d*) to detect wastefulness and extravagance. Where the audit authorities also prescribe the form of accounts, errors of principle will scarcely arise ; otherwise detection of technical errors is an important part of the auditor's duties. He checks the classification made and suggests corrections. The other three objects are realised subject to two limitations. First, audit cannot find out whether payment was made on a fraudulent claim or to a person not legally entitled to it. The executive officers are responsible for the certification of initial facts ; only a limited percentage may be verified at local inspections. Secondly, it is not within the province of audit officers to go into executive policy ; they may only point out the extravagance in the execution of that policy and make suggestions for improvement in the procedure or in policy in the interests of the tax-payer.

It is chiefly expenditure that is audited in government accounts, for only expenditure is the subject of the appropriation accounts through which the legislature determines whether the executive has faithfully carried out its will. Again government audit is only a test-audit. The audit authorities scrutinize only a certain percentage of the total transactions, as to go over all the transactions would be duplicating the scrutiny carried out by the accounts organisation and would necessitate an unduly large expenditure on audit work.

Types of Audit

There are three general types of audit, the legislative, the judicial and the political. In the first, which is in use in the U.K. and the Dominions, the audit authorities are directly subordinate to the legislature, being its agents to scrutinize the accounts of the administration. The Comptroller and Auditor General in England is granted full

1. Vide Ch. IX.

independence of the executive and judicial status to help him in his task of passing judgment upon the accounts. There is a Public Accounts Committee of the House of Commons which examines the accounts presented by the different departments and investigates whether there were any departures from the appropriations granted by the legislature. The Comptroller and Auditor General with his staff assists the committee in its tasks. He examines the accounts and prepares his reports. On the basis of these the Public Accounts Committee will call for evidence, examine departmental heads and then give its conclusions and recommendations. The Treasury also assists the committee and takes advantage of the criticism that may be made to press home the many warnings for economy which it has administered to the different departments throughout the year. The report of the Auditor General is available a few months after the financial year is over.

In France provision is made for a Court of Accounts, which consists of a first President, three presidents of chambers and 21 referees[1] or judges. Its functions are restricted to the investigation of accounts by means of a post-audit. It has no control over the administration and may not interfere with their work. It merely judges the accounts and submits a report to the legislature. The most unfortunate feature of the French system is not only that the audit arrangements are unnecessarily elaborate, but also that the accounts are received for adjudication years after the close of the fiscal period to which they relate. This is due, as was pointed out above, to the fact that in France an accrual system of accounting is followed. Germany and Japan also have a judicial type of audit, there being, in the former the *Rechnungshof* or Court of Audit and in the latter a Board of Audit.

The political type of audit prevails in Russia, where the whole governmental machinery is dominated by the Communist Party.

Of the three types considered, the last must clearly be

1. These referees are divided into three chambers of seven members each.

rejected as being unsuited to democratic governments. It is not a particular party but the legislature as a whole that makes appropriations. The judicial type of audit is, as was remarked above, unnecessarily elaborate ; and as reports take too long to be prepared, the results of the Court's investigation are of no practical value.

The legislative type of audit is straightforward. After all audit is an instrument by which the legislature seeks to control the executive by making it accountable for the budget that it has put into execution. Hence it is best for the audit authority to be the direct agent of the legislature. Another advantage is that the audit authority, if it carries on its work continuously, can co-operate with the Treasury or Finance Department to promote efficiency and prevent irregularity on the part of government departments, even while the budget is being executed.

Efficiency of Audit

Does audit perform a useful function ? The auditor is an instrument of negative control. His very existence has great moral value. The fact that he will bring all faults to the notice of the Public Accounts Committee—and the work of an officer must get reflected in the accounts in some shape or other and be subjected to scrutiny at some stage or other —puts the departmental officers on their guard against irregularities or reckless expenditure. It is no business of the audit authorities to meddle with the daily administration ; consequently the results of audit cannot be directly assessed, except in so far as frauds and misappropriations are brought to light and moneys recovered. The utility of audit may be compared to that of the police. If nothing untoward happens, they seem to be useless. Yet none will deny the utility of a police organisation, as the country has to be prepared for emergencies. Now the temptations for the administration to deviate from the straight path are many. Hence the need for an audit organisation to exercise a wholesome check. Audit also shows positive results, seen chiefly in the changes it proposes in the form and classification of accounts.

CHAPTER III

INDIAN CONSTITUTIONAL BACKGROUND

Financial Administration and the Constitution

The financial arrangements of a state are circumscribed by the constitutional framework ; for the law of the constitution is the fundamental law of the land. The constitution, be it written or unwritten, demarcates the functions and powers of the organs of the state, and so broadly determines the agents of financial control, their powers and duties, and the procedure of financial administration. The English Parliament, for instance, is sovereign ; its legislative powers are therefore unlimited and its control over the nation's purse full and complete. The constitution of the U.S.A., on the other hand, gives expression to the principle of separation of powers ; and the financial system also bears the impress of a water-tight division of the powers of the Congress and the President. Again in the English Parliament the House of Commons is constitutionally supreme in all matters of finance ; in the U.S.A. the Senate is more powerful than the House of Representatives.

When the constitution is not only written but very detailed, as our new constitution is, it not merely indicates the broad outlines of financial control but actually determines the leading features of financial administration. It is the purpose of this chapter to examine how far the Government of India Act of 1935 determines our own system of financial control and financial administration.

Even more important than the law of the constitution, is the spirit in which it is worked—those healthy conventions, usages or practices that are the outcome of the nation's particular genius. In the U.K. it is precisely such conventions that have made its parliamentary procedure a model to the democracies of the world. The standing rules of the House of Commons embody principles which in most countries are incorporated in the constitution. It is also

by changes in constitutional conventions and practices that American critics, like W. F. Willoughby and A. E. Buck, advocate a modification of the financial system of the United States. In a country like India, young in the art of democratic government, there is all the more need to establish healthy conventions, which with the passage of years will form constitutional traditions giving flesh and blood to the dry bones of statutes, rules, and regulations. The Act of 1935 very advantageously embodies in its numerous clauses many of the English constitutional conventions that play an important part in financial administration, e.g., a single fund or account to which all receipts of a politically autonomous unit are credited and out of which all payments are made, the recommendation by the executive for any proposal to increase taxation or expenditure, etc.

Financial administration is a subject in which political and financial authorities, the legislature and the executive *and the administration, have to be studied in their inter*relations ; and all of them have their powers, privileges and duties determined broadly by the constitution and the conventions that have grown round it. Hence the close connection between the constitution and financial administration.

India in Transition

The interest in financial administration centres on its ability to be a faithful servant of democracy. Economy, despatch, regularity, simplicity, are the marks of an efficient system of financial administration. Perhaps a Dictator whose will is supreme in the state may achieve that efficiency. But we shall be concerned with the other and perhaps more important aspect of the problem, namely with financial administration being so ordered and regulated that it is a means to carry out the will of the people who are the final masters of the state.

Viewed from this angle, the Indian system of financial administration is imperfect, because we have not yet reached the goal of complete self-government. Even the Act of 1935 which aims at unifying for the first time in history the provinces and Indian States into a federation is but one

further step towards it, one of the 'successive stages' by which, according to the preamble to the Government of India Act of 1919,[1] it is the declared policy of Parliament to "provide for the increasing association of Indians in every branch of Indian Administration and for the greatest development of self-governing institutions with a view to the progressive realisation of responsible government in British India as an integral part of the Empire."

The first step towards self-government in India was inaugurated by the Morley-Minto Reforms of 1909. The central and provincial legislative councils which for the first time since 1858 included elected members were enlarged. The central council discussed the estimates of the Governor General in Council, and members could move resolutions relating to alterations in taxation, new loans or additional grants to local governments, though these resolutions were just recommendations to which government gave such consideration as they thought fit. When the resolutions were disposed of, the final budget was presented by the 24th of March. This budget could only be discussed, though even as regards discussion, military, political, provincial and ecclesiastical affairs and state railways were outside the purview of the council. In the provinces the preliminary budget was framed in discussion with the Central Government, then considered by a small committee of the provincial council, of whom half at least were elected members, and finally sent to the centre for incorporation in the general budget.

From the foregoing it is evident that financial control by the people's representatives had not yet come into existence, though the voice of the people could make itself heard on a few subjects in the councils that were dominated by a powerful bureaucracy.

The next step in the direction of self-government found expression in the Act of 1919, which placed the Government of India under the Secretary of State for India assisted by the India Council. The central and provincial legislatures,

1. Referred to hereafter as the Act of 1919.

now further enlarged, consisted chiefly of elected members, though nominated and official members were always able to form a sort of 'official bloc'. A system of dyarchy was was started in the provinces and the Secretary of State was enjoined to relax his control over the 'transferred subjects.'

Certain sections of this Act which refer to the centre are still in force with certain amendments,[1] and are therefore considered in the next section of this chapter. In the provincial sphere the 'transferred' departments were under ministers responsible to the Legislative Council, and the 'reserved' departments in charge of the Governor in Council. The Legislative Council had financial powers similar to those of the Assembly at the centre. It discussed estimates and voted on demands for grants which had to be recommended by the executive and which it could accept, reject or reduce. Certain items[2] were excluded from the vote of the legislature ; and the Governor had the power to decide whether any expenditure fell within those items. Like the Governor General, the Governor could declare that a bill was essential for the discharge of his responsibilities and declare it an Act. Such a measure, however, had to be reserved for the signification of the pleasure of the Crown by the Governor General and laid before both Houses of Parliament before assent was given, unless the Governor General held that a state of emergency justified his assent forthwith. By the Devolution Rules[3] the provinces were given the power to levy taxation and borrow moneys, in the latter case only with the consent of the Government of India.

In each province for the better working of the financial system, a Finance Department[4] in charge of a Financial Secretary was created ; and entrusted with the responsibility of managing the loan accounts and famine funds, examining

1. Vide Ninth Schedule to the Act of 1935.
2. e.g. contributions to the Central Government, salaries and pensions of persons appointed by, or with the approval of, the Crown or the Secretary of State in Council, salaries of high court judges and of the Advocate General.
3. Under Ss. 45A and 129A of the Act of 1919.
4. Devolution Rule 36. Vide Appendix III.

taxation and borrowing proposals, sanctioning estimates of revenue and expenditure, framing rules for the conduct of financial business by other departments of the government, acting upon the reports of the Principal Auditor and assisting the Public Accounts Committee of the Legislative Council. Here then was established an important agency for an efficient system of financial administration—an asset of great value.

In the field of finance, however, decentralisation was necessitated by the size of the country and its population. From 1877 the finances of India have been increasingly decentralised, till now the constitution contemplates finance on a federal basis. The scheme of decentralisation of Lord Mayo was begun in 1871 and revisions of the scheme were carried out at quinquennial intervals from 1877 to 1897. In 1904 the centre placed its relations with the provinces on a semi-permanent basis. Minor changes in the settlement of 1904 were introduced in 1912 ; but in the main it was the former settlement that continued till 1921. In that year the provinces were, under the Devolution Rules, allotted certain sources of revenue, even though they still remained under the control of the centre. By the Act of 1935 the provinces and the centre have separate sources of revenue, and in addition the former enjoy the benefit of assignments of tax proceeds and subventions from the latter.

The Act of 1935 is a further step in the direction of self-government. As the present-day system and the contemplated federation are dealt with at length in the next section it will suffice here to make a few general remarks on the main features as envisaged by the Act.

The federation is not to enjoy the responsiblities and privileges of a Dominion. The British Parliament still retains its control over India and the power to determine the time and manner of constitutional advance. Hence the special powers and responsibilities of the Governor General and the Governors and the many restrictions on the powers of the legislatures. Consequently the Act only contemplates limited self-government—a parliamentary form of government without the full substance of parliamentary power.

This fact will have a very profound influence on the financial powers of the different authorities in India and the various financial practices and procedure. The establishment of the federation is further made dependent on the entry of Indian States into it. No such option, however, is available to the provinces. Again while all the provisions of the Act are applicable to the provinces, the Rulers of Indian States are to specify in their Instruments of Accession the subjects[1] over which the Federal Authorities will have control in their States. Hence those very units which are less advanced in popular government will have a large voice in controlling the destinies of what is now termed British India.

Provincial autonomy is the second main characteristic of the new constitution. The provincial legislatures are fully elected and dyarchy has been replaced by a popular ministry. The province now has its own well marked sphere of legislation and separate sources of taxation.

The Act of 1919 entrusted the Secretary of State in Council with complete control over all acts and operations relating to the government or revenues of India. The Governor General in Council for the civil and military government of India and the Governors with their Councillors and Ministers for the government of the provinces were the direct subordinates and agents of the Secretary of State, who was required to relax or remove his wide powers of superintendence, direction and control with regard to 'transferred' subjects. By the Act of 1935, however, the federation and the provinces—and this is the third characteristic of the new constitution—derive their powers by direct delegation from the Crown and may exercise them independently, the former subject to the general direction and control of the Secretary of State and the latter of the Governor General on certain matters specified by the Act.

The Financial Structure

The political arrangements in a state are of interest to a student of financial administration in so far as they

1. These are to be explicitly enumerated in the Instruments of Accession, which once made are irrevocable, unless amendments by Parliament are such as completely to change the substance of the present Act.

determine, influence and shape the system of finance in the country. Hence we shall now consider the powers and functions of the different statutory bodies and authorities in their relation to financial administration. The next chapter will contain a description of the chief parts of the administrative machinery of India.

The Secretary of State and his Advisers. The Secretary of State for India is the member of the British cabinet who in reality exercises the powers of the Crown and to whom the Governor General and the Governors are constitutionally responsible. Under the Act of 1935 his control over India has ostensibly at least decreased. He however retains full control over the Services, prepares the Instruments of Instructions to the Governor General and the Governors, and possesses the powers of superintendence and direction over the Governor General and, through the Governor General, over the Governors in all matters in which they are required by the constitution to act in their discretion or exercise their individual judgment. Consequently, the Secretary of State has control over the Defence, Ecclesiastical and Political Departments, which account for over half the expenditure at the centre, over all charged expenditure, over the financial stability and credit of the federation, over all other special powers and responsibilities of the Governor General or Governors ; and therefore his financial powers though indirect are quite substantial. The personal equation between the Secretary of State and the Governor General determines the extent of these powers in practice. The Secretary of State on the introduction of provincial autonomy, has been deprived of the borrowing powers he exercised hitherto, though during the transition to federation he may with the approval of his Advisers contract sterling loans on behalf of the Governor General, who during that period is debarred from floating any such loans.

To assist the Secretary of State the Act provides for Advisers, not less than three nor more than six in number and during the transition period not less than eight nor more than twelve. These Advisers may be consulted either collectively

or individually or not at all ; even when consulted their advice is not binding on the Secretary of State except on certain matters relating to the Services and specified chiefly in Part X of the Act, and except during the transition, on directions regarding grants or appropriations and contracting of loans. The powerful India Council has thus been substituted by a purely advisory body.

The Central Executive. The Central Government in India is in a peculiar state of transition and is governed by Part XIII of, and the Ninth Schedule to, the Act. The chief executive authority is the Governor General in Council. The Governor General has all the powers and duties given to him by the Act as well as other powers which His Majesty may assign to him. He is assisted by his Executive Council whose advice he is bound to follow, though he may override it on any measure he thinks essentially affects the safety, tranquillity or interests of British India or any part of it. For the exercise of the functions of the Crown in its relations with Indian States, there is appointed a Crown Representative,[1] a legal authority separate from that of the Governor General. Both offices of Governor General and Crown Representative may be and are filled by the same person.

Constitutionally the Governor General and the Governor General in Council are under the general control and superintendence of the Secretary of State, whose directions they must comply with. All executive authority is to be exercised on behalf of His Majesty by the Governor General in Council directly or in his name by officers subordinate to him. This, however, does not prevent the central legislature (which during the transition enjoys the powers of the federal legislature) from conferring functions on subordinate authorities. The executive authority of the Governor General in Council extends (*a*) to matters within the purview of the legislature, (*b*) to naval, military and air forces borne on the Indian establishment, and (*c*) rights, authority and jurisdiction of the Crown in relation to tribal areas. It does not extend to the provincial sphere.

1. Vide Ch. XIV, *D. The Crown Representative's Department.*

The Governor General has the power to frame rules and orders for the more convenient transaction of business in his Executive Council. These rules and orders have an important bearing on the administrative structure and on financial control, because they assign to the Finance Department a position of primacy and a special role in the financial system of the Central Government. The Governor General has also the power to certify that a bill is essential for the safety, tranquillity or interests of British India or any part thereof and declare it an Act, though every such Act must be laid before Parliament and receive the assent of His Majesty in Council before it begins to have effect, unless the Governor General is of opinion that a state of emergency exists when the Act will come into force immediately.

In the field of budgetary finance he must cause to be laid before both chambers of the legislature the annual, and, if necessary, a supplementary financial statement of estimated receipts and expenditure. In this budget statement expenditure is divided into 'voted' and 'non-voted' or 'charged on the revenues,' the latter referring to certain specified heads of expenditure,[1] which may not even be discussed, unless the Governor General otherwise directs. The decision of the Governor General as to whether any expenditure falls within those heads is final. The recommendation of the Governor General is necessary before any demand for a grant may be placed before the legislature, which may reject, reduce or assent to it. But the Governor General may restore a rejected or reduced demand, if in his opinion it is essential to the discharge of his special responsibilities ; and he may further authorise expenditure which he deems essential to the safety or transquillity of British India or any part of it. The recommendation of the Governor General is also required for imposing or increasing a tax,[2] for regulating borrowing and other financial obligations.

1. Vide Ninth Schedule to the Act of 1935, S. 67A (3).
2. Also no bill or amendment which by S. 141 proposes or varies any tax or duty in which the provinces are interested, or by S. 153 affects the coinage or currency or constitution of the Reserve Bank, can be introduced without the Governor General's previous sanction.

As the representative of the Crown in its relations with Indian States the Governor General has his financial powers conveyed to him through Letters Patent. The Government of India must pay[1] to the Crown Representative such sums as may be required for the discharge of his functions in relation to Indian States. The budget of the Crown Representative, calculated on a net basis and charged on the central revenues, can neither be voted on nor discussed by the legislature.

Other financial provisions require the Governor General to make rules for the custody of public moneys, to approve of the form of accounts and the directions given by the Auditor General on the methods and principles on which accounts should be kept, to receive the audit reports for transmission to the legislature, to decide whether any proposed expenditure falls within a class of expenditure charged on the central revenues and even within the head of accounts under which any transaction or class of transactions ought to be recorded.

The Executive Council continues to be, for the present, the Governor General's cabinet. In theory under the Act of 1919 the executive councillors have equal power with the Governor General who is merely the President of the Council with the privilege of a casting vote. But the power to overrule the council or a dissentient majority of it, when in his judgment the safety, tranquillity or interests of the British possessions in India are or may be essentially affected, has greatly strengthened his position. In such cases any two members of the majority are entitled to insist that the circumstances be notified and the copies of dissent forwarded to the Secretary of State. In practice the personality of the Governor General plays an all important part and it is possible for him to reduce his Executive Council to a mere administrative committee. The Viceroy's Council works on the portfolio basis. Each member has charge of a particular department, is assisted by a permanent departmental secretary, and though responsible for its ordinary business, is bound to lay all important cases before the Viceroy "whose

1. S. 145.

will forms the final arbitrament in all great questions of policy in which he sees fit to exercise it."[1]

The strange peculiarity of the Act of 1935 is that dyarchy, which was acknowledged to be a failure in the provinces, has been adopted for the federal government. Defence, foreign and ecclesiastical affairs, and matters regarding tribal areas form reserved subjects, control over which will be exercised by the Governor General in his discretion. To assist him in these tasks he may have not more than three Counsellors. For the administration of all other federal affairs provision has been made for a Council of Ministers, not exceeding ten in number, to aid and advise the Governor General. The ministry will be so heterogeneous, including as it must the interests of the States and of the minorities, that its will in the legislature will be feeble. This lack of unity, though the Governor General is expected to encourage joint responsibility among his ministers and joint consultation between himself, his counsellors and his ministers, will reflect itself in the powers of the Finance Minister and his department ; and thus fundamentally affect the financial system.

Towards the ministers the Governor General's position is peculiar. On certain matters he must be guided by their advice ; on others he must consult them even though finally he must decide in his individual judgment ; on still others he need not consult them at all, for he is required to act in his sole discretion. And it is in connection with the latter two categories that he is subject to the general superintendence of the Secretary of State. Under the second category comes a number of special responsibilities,[2] among which is the safeguarding of the financial stability and credit of the federation. For the efficient discharge of this responsibility he is empowered to provide appropriations which shall not be

1. A. K. Ghose, *Public Administration in India*, p. 115.
2. e.g. the prevention of any grave menace to the peace or tranquillity of India or any part thereof, safeguarding of the legitimate interests of minorities and of the rights of members of the Services, the prevention of discriminatory legislation and of trade discrimination against British or Burma goods, the protection of the rights and dignity of the Ruler of a State. Vide S. 12.

subject to the vote of the legislature and to appoint a Financial Adviser to assist him. This officer will also be available to the federation on any financial matter he may be consulted upon. The cumulative effect of all these provisions is that over 80% of the central expenditure will be outside the control of the legislature and subject only to the Governor General and through him to the Secretary of State.

Ministers must be members of either chamber of the legislature and a minister without a seat for six months ceases to be a minister. The constitution very wisely provides for contact between the legislature and the executive, for the Governor General may address or send messages to any or both chambers of the legislature, and further every minister has the right to speak and take part in the proceedings of either chamber, though he will have no vote unless he is a member of that chamber. This provision is in keeping with the principle of co-operation between the executive and the legislature, so necessary for the harmonious working of the budget system.

The Finance Member of the Viceroy's executive has sometimes been called the Indian Chancellor of the Exchequer. This is very misleading for his influence will not stand comparison with that of the powerful British figure, who is a colleague of the Prime Minister and stands high in the party organisation. In fact, the Finance Member's influence in the Executive Council depends entirely on the support he can secure from the Governor General. Neither the Finance Member nor the Finance Minister to come has any special position accorded to him by the constitution, as happens in some countries ; his importance depends on the Rules of Business and the conventions that are established.

As at present the Governor General will have the power to frame Rules of Business[1] for the more convenient transaction of the business of the Federal Government and for the allocation of that business among his ministers, provided it does not come within the exercise of his sole discretion. To

1. S. 17.

the importance of such rules attention has already been drawn. As regards financial procedure the Governor General has to authorise all expenditure in a schedule authenticated by him, and unless grants and appropriations are included in it no expenditure may be incurred. The Governor General, however, may not increase in the schedule the amount to be charged on the revenues as shown in the budget estimates.

The Act of 1935 also provides for an Instrument of Instructions to the Governor General to show him the spirit in which he must exercise his privileges and duties.[1] It is meant to guide him in regulating the conduct of the Executive Government, interpreting his special responsibilities and exercising his discretionary powers and functions. It is hoped that modifications might be introduced from time to time in the Instrument, so that the Federal Ministers might gradually be able to enlarge their powers and so prepare the way for amendments to the constitution.

The Central Legislature. The two chambers, the Council of State and the Legislative Assembly,[2] have equal powers except on financial matters. These powers are those that will be exercised by the federal legislature, qualified by the provisions of the ninth schedule to the Act of 1935. The annual estimates are presented to the legislature, but certain matters—like interest and sinking fund charges on loans, expenditure prescribed by any law, salaries and pensions of persons appointed with the approval of His Majesty, sums payable to the Crown Representative, expenditure on

1. He is required e.g. in regard to the federal executive to select his ministers in consultation with the leader of the majority in the legislature, and to appoint those persons, including as far as practicable representatives of the Federated States and members of important minority communities, who will best be able collectively to command the confidence of the legislature. At the same time he has to bear in mind the need for fostering a sense of joint responsibility among his ministers. Again the Governor General is expected to encourage the practice of joint consultation between himself, his counsellors and his ministers.

2. The Council of State has 60 members of whom not more than 20 may be official members ; the Assembly has 140 members of whom 26 are official members. Both chambers have a certain number of nominated members.

defence, external and ecclesiastical affairs, and affairs relating to tribal areas, expenditure on matters which come within the ambit of the Governor General's sole discretion—are not only non-votable but also excluded from discussion unless the Governor General otherwise directs.[1] Initiative of appropriation rests with the Governor General ; and the Assembly, to whom alone the demands for grants are submitted, may accept, diminish or refuse them. Further, if the Governor General deems it essential to the safety, tranquillity or interests of British India or any part of it, he may, by his power of certification, turn any bill introduced by him and rejected by the legislature into law.

The federal legislature will consist of His Majesty represented by the Governor General and the two chambers, the Council of State and the Federal Assembly.[2] Both chambers will have co-ordinate powers on all matters save finance bills,[3] which must be introduced on the recommendation of the Governor General and only in the Federal Assembly, and demands for grants which must first be submitted to the Federal Assembly and thereafter to the Council of State, provided that where the Assembly has reduced a demand, only the reduced amount must be submitted to the Council of State, and where it has refused, no demand must be submitted, unless in either case the Governor General

1. Discussion on defence estimates is usually allowed.

2. The Council of State will have 260 members, 156 being representatives of British India and 104 of the Indian States ; the Federal Assembly will have 375 members, British India and the States contributing respectively 250 and 125. The Council of State will be a permanent body not subject to dissolution, but one-third of the members shall retire every third year. Every Federal Assembly unless sooner dissolved shall continue for five years from the date appointed for its first meeting.

3. S. 37. (1) A bill or amendment making provision—

(*a*) for imposing or increasing any tax ; or

(*b*) for regulating the borrowing of money or the giving of any guarantee by the Federal Government, or for amending the law with respect to any financial obligations undertaken or to be undertaken by the Federal Government ; or

(*c*) for declaring any expenditure to be expenditure charged on the revenues of the federation, or for increasing the amount of any such expenditure, shall not be introduced or moved except on the recommendation of the Governor General, and a bill making such provision shall not be introduced in the Council of State.

directs otherwise.[1] Even if a demand is reduced or rejected, the Governor General may re-instate the grant, if in his opinion it is necessary for the discharge of his special responsibilities. Further no expenditure may be incurred unless it is included in a schedule of authorised expenditure by the Governor General.

The rules of procedure for the legislative chambers are at present determined by the Governor General but in the federation each house will make its own rules for regulating the procedure and conduct of business, though the Governor General in his discretion, after consulting the President of the Council of State or the Speaker of the Federal Assembly, may make rules, among other purposes, for regulating the procedure regarding any matters which affect the discharge of his functions, in so far as he has to act in his discretion or individual judgment, and for securing the timely completion of financial business. The Legislative Rules provide for a Public Accounts Committee, an important agency for financial control.

The Act provides for legislative sessions at least once a year, the interval between any two sessions being less than twelve months. This action is also secured by the provision which requires the budget estimates and the demands for grants for votable items to be submitted annually to the legislature.

When the federation is established the railways will cease to be under the control of the legislature. The railway budget will then no longer be submitted to it and the management of the railways will be entrusted to a Federal Railway Authority. The Federal Government will of course exercise some control over the Authority, specially through instructions on questions of policy by which the Authority will be guided. The Railway Tribunal will be established to hear and determine complaints against the Authority which is required to afford all reasonable facilities for the receiving, forwarding and delivering of traffic upon and from the railways, and to

1. S. 34 (2).

secure that there shall be between one railway system and another no unfair discrimination by the granting of undue preference or otherwise, and no unfair or uneconomic competition.

Audit Authorities. The Act provides for the appointment of an Auditor General of India whose duties and powers in regard to accounts and audit are laid down in the Act and amplified in the Audit and Accounts Order. His status and conditions of service are such as to give him a position of detachment and independence. For the present his tasks extend to the centre and the provinces, though by the Act a province may have its own Auditor General. The procedure for the purpose is this. Not less than two years from the inauguration of Part III of the Act a province must first pass an Act charging the salary of the Auditor General for the province on its revenues. Three years later His Majesty will make the first appointment of the Provincial Auditor General. Hence no province could have its own Auditor General before 1st April, 1942.

The duties and powers of the Auditor General of India are discussed in detail in a later chapter.[1] Suffice it to say here that he is concerned with both accounts and audit, and that he is the instrument by which the executive exercises a check on the administration, and by which also the legislature, even though he is not its direct agent, attempts to control the executive on budgetary matters through the Public Accounts Committee.

For the audit of the central and provincial transactions in England the constitution provides for an Auditor of Indian Home Accounts, subject to the general superintendence of the Auditor General of India.

The Provincial Executive. With the inauguration of provincial autonomy in 1937 dyarchy has been done away with, ministerial responsibility established, the Crown brought into closer association with the province and a considerable measure of self-government introduced. The Chief Executive of a province is the Governor and in his

1. Vide Ch. IX, *The Auditor General and Accounts* and *The Auditor General and Audit.*

name the executive authority of the province is exercised. This executive authority extends roughly to all matters on which the provincial legislature is empowered to legislate.

Like the Governor General, and for a similar purpose, the Governor receives his Instrument of Instructions.[1] In certain specified matters the Governor has to act in his discretion or his individual judgment, and in all such matters is subject to the general control and direction of the Governor General. Like the Governor General, the Governor has his special responsibilities,[2] which come within the sphere of his individual judgment and in the discharge of which he is entitled to provide for such appropriations in the annual budget as he deems necessary.

The Governor is empowered to frame "Rules of Business" for the conduct of government business, and these Rules have a like importance for the province as the rules framed by the Governor General for the centre. The Governor also possesses certain legislative powers when the legislature is in recess and at any time with respect to subjects in regard to which he must act in his decretion or individual judgment.

In budgetary finance the Governor has, like the Governor General, the responsibility of laying before the provincial legislature annually the financial statement of estimated receipts and expenditure, and if necessary a supplementary financial statement. Further he must recommend every demand for a grant and all money bills before they are introduced in the Assembly. He also frames the rules for the safe custody of public moneys, receives the audit reports on provincial accounts from the Auditor General, and decides not only whether any proposed expenditure falls within a class of expenditure charged on the

1. He is enjoined to maintain good standards of administration, to encourage religious toleration, co-operation and good will among all classes and creeds, to promote measures making for moral, social and economic welfare, to select his ministers in consultation with the leader of a stable majority in the legislature, and to foster a sense of joint responsibility among his ministers.

2. However, the preservation of the financial stability of the province is not one of these.

provincial revenues, but also the head of account under which any transaction or class of transactions ought to be recorded.

The constitutional advisers of the Governor are his ministers[1] drawn from the legislature, commanding a majority in it and representing as far as possible the minority communities as well. The principle of joint ministerial responsibility has been followed ; and the Minister of Finance by the Rules of Business holds an important place in the cabinet.[2] Ministers are assisted by permanent departmental secretaries to the government and function on the portfolio system. Ministers are required to bring to the notice of the Governor, and the secretaries to the notice of the ministers and the Governor, all business so required to be brought by the Rules, and in particular matters which appear to or do involve any special responsibility of the Governor.

The ministry is in full control of provincial finance except as regards expenditure charged on the revenues, which amounts to about 15% of the total expenditure of a province, or required by the Governor for the discharge of his special responsibilities. The former is not subject to the vote of the Assembly ; the latter, even if refused by it, may be restored by the Governor in the schedule of authenticated expenditure which puts at the disposal of the spending agencies the appropriations for the year.

The Provincial Legislature. Provincial legislatures have this peculiarity that while those of Bombay, Madras, Bengal, the U. P., Bihar and Assam are bicameral, the rest are unicameral. The strength of the Councils and Assemblies[3] varies considerably from province to province. The

1. No maximum number is prescribed as for the federation.

2. The Finance Department is the custodian of provincial finance and the watch-dog for economy in the administration. But much depends however on the ministerial policy followed and on the influence that the Finance Minister may wield over his colleagues.

3. The upper chambers are called Legislative Councils, are permanent and not subject to dissolution, though one-third of the members must retire every third year. The Legislative Assemblies, which are the lower houses where the bicameral system prevails, continue unless sooner dissolved for five years from the date appointed for their first meeting.

constitution provides specifically that the legislature, as at the centre, should meet once at least in every year, the interval between any two sessions being less than a year, though such action is also required for the voting of the demands for grants for the financial year.

Like the Governor General, the Governor has the right to address and send messages to the legislature, a right to be exercised in his discretion. Further every minister has the right to speak and otherwise take part in the proceedings of both houses and their committees, but unless he is a member of that house is not entitled to vote. Hence, as at the centre, contact between the executive and the legislature is fully provided for. Both chambers, except on matters relating to finance, have co-ordinate powers. Estimates are laid before both ; but the demands for grants, recommended by the Governor, are presented only to the Legislative Assembly. Secondly financial bills may be introduced only in the Assembly and these not without a similar recommendation. Besides in the event of joint sessions, the Assembly with its superior numerical strength will easily carry the day.

Each chamber is empowered to frame its own rules to regulate the procedure and conduct of its business. The Governor, however, has the right, to be exercised in his discretion after consultation with the Speaker or President, to make rules, among other purposes, for regulating matters affecting the discharge of functions when he must act in his discretion or individual judgment and for the securing of the timely completion of financial business.

The Present and the Future

With the outbreak of war federation has receded into the background. Soon after the declaration of war the Governor General, with the consent of the British Government, promised Dominion Status of the Westminster variety as soon as possible after the war was over together with the immediate expansion of his Executive Council by the inclusion of representatives of the various parties. More recently the proposals of Sir Stafford Cripps went even

further. All portfolios were to be handed over to representatives of the people immediately, except that of defence. The political parties, however, have not seen their way to be enthusiastic over these promises and proposals. The Congress ministries in seven provinces resigned office soon after the outbreak of war and the Governors, having proclaimed a breakdown of the constiution, have taken upon themselves the task of administration with the assistance of Advisers. Thus for the present there is a stalemate. What the future holds in store no one knows. But this work, it has been said at the very beginning, assumes that federation as outlined in the Act of 1935 will be established, even though an all-India federation is at present a remote possibility. Should, however, dominion status be established, our financial system will be increasingly responsive to the will of the people's representatives. Should federation, which for the first time in history aims at unifying India, succeed, we may then truly be said to have a national system of finance. But whatever happens, an analysis of the financial system as it prevails today and as it is envisaged by the Act of 1935 should be helpful towards solving problems that will necessarily arise from the transition of the present to the independent status of the future.

Fundamental Principles

Every constitution with the usages and conventions that have grown around it contains certain principles which form the foundation of the financial system. In the U.K., for instance, there are four broad principles : first, that every tax or appropriation measure must be authorised by the House of Commons on the recommendation of the executive, and further that moneys must be appropriated for the purposes for which they have been granted ; secondly that all receipts and all payments should pass through a Consolidated Fund ;[1] thirdly that the fiscal period should be a year, and all estimates whether of expenditure or income prepared in advance, and so prepared as normally to balance without resorting to borrowings ; and lastly that moneys unspent at the end of the year lapse.

1. There are a few exceptions to this such as appropriations-in-aid.

The British Constitution gives unlimited sovereignty to the House of Commons and therefore whatever restrictions there may seem to be on its powers are really in the nature of self-denying ordinances. In the U.S.A. the theory of the separation of powers prevails. The legislature, therefore, takes advantage of its privileges so completely to re-shape the estimates as presented by the executive as to frame a fresh budget. Further any member may move an appropriation or an increase for any existing appropriation, as the influence of the executive in the legislature is conspicuous by its absence.

As far as our own constitution, conventions and practices are concerned we may single out a few principles or rules underlying our financial system which is based very largely on the British parliamentary model.

1. As Parliament retains control over India, the Governor General and the Governors possess powers and privileges which make them very strong as against the legislatures. The Act of 1935 is only another step towards full self-government ; the control of the purse by the people of India is therefore very incomplete. A large part of the expenditure is non-votable and controlled only by the executive which in turn takes instructions from the Secretary of State for India.

2. Every tax and every demand for a grant must receive legislative approval, unless in either case the Governor General or the Governor is of opinion that such a tax or grant is required for the discharge of his special responsibilities, when he may declare a finance bill to be an Act of the legislature and restore a demand if it has been rejected or reduced.

3. All expenditure is divided into "charged" and "voted." It is true that in most countries every item of expenditure is not voted[1] every year. In England, there are the consolidated fund services for which a parliamentary vote is not required annually. There is a great difference, however, between such expenditure and "charged" expendi-

1. Salaries of judges are almost universally non-votable.

ture. The former is limited to certain items on which it is desired there should be no political discussion or which refer to items that have already secured the sanction of the legislature and need not be considered annually. The latter does not at all come before the legislature for sanction ; it is expenditure entirely outside its control. Certain Services, for example, are under the direct control of the Secretary of State and consequently the legislature has no chance whatever to approve or disapprove of the conditions of service, salaries, etc.

4. No expenditure is authorised, even if passed by the legislature in the form of demands for grants, unless it is included in a schedule of expenditure authenticated by the Governor or Governor General.

5. Money must be applied for the object mentioned in the schedule of authorised expenditure. No sums of money may be spent by an administrative officer unless they are included in that schedule. The Auditor General conducts an appropriation audit for the purpose.

6. All receipts from revenues or otherwise must be paid into a consolidated fund called the Public Account, and all disbursements made from it. The Governor General or Governor may, however, make exceptions under rules providing for the same. There is a separate public account for the centre and for each province.

7. The financial period is the year commencing from 1st April, and the accounts are kept on a cash basis. The estimates of expenditure and income are prepared in advance and so prepared as normally to balance without resorting to borrowings.

8. Unspent balances lapse at the end of the financial year to which they relate, and therefore payments that are not made within that period must be re-authorised in the following year.

9. Every appropriation and tax measure must have executive recommendation. This rule prevents all the abuses of 'log-rolling' that are seen in France and the U.S.A., where any member is entitled to move an increase

of appropriation or even propose an entirely fresh appropriation for a new object.

10. Lastly, the Finance Department is responsible for controlling all expenditure and therefore performs an important role in the system of financial control.

Peculiarities and Limitations

Of the above principles the first, second and fourth are peculiar to the Indian financial system. Other peculiarities are (*a*) the system of combined audit and accounts, produced by history and preserved on grounds of economy, (*b*) independent government treasuries which, however, are being continually reduced, (*c*) a separate budget for the railways which on the commencement of federation will pass out of the control of the legislature altogether, and (*d*) dyarchy at the centre, with certain reserved subjects entirely outside legislative control, though questions on these subjects may be asked and the estimates discussed. Hence it will be seen that some of the peculiarities are due to the historical growth of the system for long strongly centralised, others to the stage of incomplete self-government that has been reached.

As long as full internal autonomy is not realised, the limitations on the powers of the centre will continue. The provinces, being smaller and component units, must necessarily in some degree have their interests and activities[1] regulated by the Central Government, though there is yet scope for an extension of the present provincial autonomy.

The province is empowered by the Act to borrow on the security of its revenues, though it requires the consent of the federation to borrow outside India or raise a loan when there is still outstanding a loan made or guaranteed by the federation or the Governor General. This consent however may not be withheld unreasonably, or a loan or a guarantee for a loan refused, if sufficient reason is shown.

The Indian States

Over the Indian States the Crown enjoys rights of paramountcy which though not treaty rights yet recognise

1. Specially as regards restrictions on indebtedness.

the sovereignty of the States in the sense of a "well-ascertained assemblage of separate powers and privileges," and internal autonomy so long as there is no maladministration. Hence the entry of an Indian State into the federation is voluntary[1] and must be effected by an Instrument of Accession which, however, when once made is irrevocable.[2] By this Instrument the Ruler acknowledges the authority of the King, the Governor General, the federal legislature, the Federal Court and other federal authorities, subject always to the terms of the Instrument of Accession and for the purposes only of the federation ; and further specifies the matters with regard to which he accepts the authority of the federation and assumes the obligation of giving due effect within his State to the provisions of the Act so far as applicable to him under the Instrument. By a supplementary Instrument of Accession a Ruler may extend the functions exercisable by the federation. Every Instrument of Accession when accepted comes under judicial notice.

A federated state may not impede or prejudice the exercise of federal executive authority in the state as far as that authority is exercisable. If the Governor General finds that the Ruler of a federated state has in any way failed to fulfil his obligations in the matter, he may issue such instructions to the Ruler as he thinks fit.

Local Finance

The system of local finance, that is the finance of Municipal Corporations, Municipalities, District Boards and Village Panchayats, must find a place in a work that deals with the financial system of a country. But this is a large subject by itself requiring separate treatment and, therefore, it is usually not treated in full in a work like this which is devoted to the financial system of the government of the

1. A State that wishes to enter into the Federation within twenty years of its establishment must have its request transmitted to His Majesty through the Governor General ; after that period the request will not be so transmitted unless each chamber of the federal legislature presents an address for submission to His Majesty praying that the State be admitted into the Federation.
2. No amendment to the Act of 1935 is binding on a Ruler unless he accepts it by a separate Instrument.

country. Hence only a few remarks will be made so as to give a rough idea of the system as it generally prevails.

Local Government is an item of the Provincial List ; the provinces, therefore, may legislate on the constitution and powers of municipal corporations, municipalities, improvement trusts, district boards, village authorities and so on, though Port Trusts of the major ports are on the Federal Legislative List.

Calcutta, Bombay and Madras have the privilege of a Municipal Corporation with a Commissioner as the chief executive officer. These corporations enjoy a large measure of freedom, though on certain matters, such as appointments, contracts, borrowing and audit, the Provincial Government retains certain powers of control.

There are 728 municipalities in British India varying very greatly in size and population. The majority of the members in a municipality are elected. The municipality has obligatory and optional functions—under the first come lighting and cleaning of public streets, water supply, extinguishing fires, vaccination, public hospitals, dispensaries, schools and registering of births and deaths ; under the latter public parks, gardens, libraries and museums, census and surveys. The Provincial Government sees that adequate provision of funds is made for all the obligatory functions.

Both municipal corporations and municipalities have their own sources of revenue in the form of octroi duties, terminal taxes, taxes on property, professions and vehicles, and various kinds of rates. They have full freedom in financial matters, government intervention and control being restricted to cases in which the public interest calls for special protection.

In rural areas there are district boards and local boards, and the system of self-government in the rural areas differs widely in the different provinces. The majority of members on these boards are elected. The functions of the district and taluka boards are similar to those of the municipalities,

allowance being made for differences in area, population and other conditions between town and country. The main source of income is a tax or cess on the annual value of land and is collected along with land revenue. A large part of the income of the boards is made up of subventions or grants from the Provincial Governments, and grants-in-aid for construction of works.

The village panchayat is the elected village authority. Its primary function is to look after wells and sanitation, and is sometimes entrusted with the care of minor roads and the running of schools and dispensaries. Village panchayats are making good progress in the United Provinces, Bengal and Madras ; in other provinces they are still in their infancy.

CHAPTER IV

FINANCIAL ORGANISATION IN INDIA

ONE of the preliminaries of financial administration is to know the different agencies which form the machinery of government and their relations with one another. The practical aspect of financial administration must necessarily take note of the structure of the administrative system and the personnel which mans the administration.

The administration in the first place reflects the constitution, for it is the constitution of the land which distributes the powers to each agency of government. As we saw in the previous chapter, the powers of the Governor General and the Governors, of the Auditor General and of other statutory bodies such as the Federal Railway Authority are given by statutory enactments, that is, either by the Act itself or Orders in Council under the relevant sections of the Act. In the second place there are rules and orders issued under the authority of statutory enactments by competent authorities, and these determine the powers and functions of other organisations and offices, e.g. the Rules of Business determine the powers of the different administrative departments of the government, the rules issued by the Auditor General affect the conduct of the Indian Audit Department, the rules regulating the collection, custody and payment of moneys control the working of treasuries. Then again there are a number of conventions and administrative practices which give life to dead rules and regulations, and a tone to the system of financial administration in a country. Nothing is so important as the spirit in which the financial machinery is worked.

Administration is a specialised task where, unless responsibility and direction are combined in some definite person or persons, there is no efficiency. The Indian Bureaucracy is reputed to be the most highly centralised administration in the world. In a sense that is an advantage, because the administration of a large area must be

closely knit in order to be effective. Political power over India today largely rests with Parliament ; and the Indian Bureaucracy exercises that power according to the wishes of Parliament, as laid down by the Act or expressed through the instructions and directions of the Secretary of State. Yet even when dominion status or independence is achieved, the administration ought to remain centralised, if it is effectively to carry out the wishes of the Indian people as expressed through their representatives in the legislature.

The Indian Bureaucracy has been accused of making a fetish of efficiency at a very heavy price. It is said, and with truth, that the Indian administration is the costliest in the world. But whatever may be said about the expense of administration, it is a merit of the Indian system to have insisted on efficiency, a feature which we must not discard even in the New India. Another merit, the result of centralisation, is the system of control, of scrutiny and review, that has been established, which makes for economy and efficiency in the estimating and execution of the different schemes.

Indian administration is organised on a departmental basis. Such a procedure helps to fix responsibilities and duties on specific individuals or bodies. In administration fixing of responsibility is all-important ; or else praise or blame, correction or improvement is impossible. The different departments of government are responsible for the policy initiated as well as for the daily administration of the subjects allotted to them. The Finance Department in addition to its own special responsibilities in the realm of finance acts as a co-ordinating body. At the head of every department is a member of the executive ; and by this means the executive is brought into intimate contact with the administration. The executive collectively is another co-ordinating force in the governmental machinery.

Each department is organised not only with an eye to an economical division of labour but, wherever possible, mutual check and assistance. The headquarters organisation of the government is the Secretariat. Most, if not all, the

administrative departments are housed in the same building, so that mutual discussion and assistance are facilitated.

The work of the secretariat is conducted by means of a filing system, so designed as to secure all relevant information bearing on a case before any decision is arrived at. The ball may be set rolling, for example, by the receipt of a petition. That petition after being recorded in the registry is sent to the appropriate department for disposal. Here the questions raised are dealt with from all points of view and all relevant information noted. The subordinate staff prepares the noting and submits it through the Section Superintendent to the officers, namely, the Secretary or his deputies or the Under-Secretary. In some cases the file with the accumulated noting is required to be sent to another department or departments, where it undergoes a similar process. The journeying to and fro may, in important schemes, last a long time and at the end there is a veritable book on the original question or questions raised. This system helps greatly for continuity of policy which is so essential to government administration. The important decisions are even printed with all the important noting that led to the decision, and the printed booklet serves as a guide in all future cases.

We shall describe briefly in the following pages the different financial agencies of the central and provincial governments ; how they are constituted and how they are related to each other and what functions they perform. We shall take in turn the departments and officials in England, at the centre and in the provinces, and lastly those organisations and officials which serve both provinces and the centre.

DEPARTMENTS AND OFFICIALS IN ENGLAND

The India Office is the office of the Secretary of State for India. As it has to deal with the multifarious problems of the different governments in India its organisation is 'a miniature government in itself'.[1] Every department in India has its counterpart in the India Office. The Secretary

1. M. C. C. Seton, *The India Office*, p. 6.

of State, a cabinet minister, is the head of the office. Though with every step in the direction of self-government his control over Indian administration must diminish, it is still very considerable, even if exercised in a very quiet and unostentatious manner through the issue of directions to the Governor General and the Governors. The relations between the Secretary of State and the Viceroy depend on their personalities. The latter being on the spot must necessarily possess very large powers of discretion; the former, however, being constitutionally responsible to Parliament has the final say on matters both of policy and of administration.[1] The Secretary of State is aided by Advisers who, for the speedy despatch of business, are divided into various committees. These committees, however, are purely advisory.

The administrative head of the office is the permanent Under-Secretary of State. The work of the office is divided among a number of departments, e.g. finance, services, judicial, defence, etc. The financial organisation consists of the Finance Department, the Accountant General, and the Auditor of Indian Home Accounts.

The Finance Department is in charge of two secretaries, and besides controlling expenditure in England, scrutinises expenditure in India with regard to the reserved subjects. The Governor General is required to follow the directions of the Secretary of State when he decides matters in his sole discretion ; and undoubtedly directions of a financial nature will be dealt with by the Finance Department. Before the new constitution came into force the Secretary of State had to sanction a very large portion of the expenditure in India, though in practice most of the powers were delegated to the Governor General. The task of the Finance Department was therefore heavy. Now the authorities in India themselves possess the power to sanction expenditure, and the

1. "The Secretary of State for India watches from a lofty and distant position the ebb and flow of Indian tides. Charged by Parliament with the control of the Government of India his deliberate attitude towards that body is neither hostile nor complacent. He watches, he consults, sometimes he intervenes in what the Government of India consider an irritating manner."—Chailley, *Administrative Practice in India,* quoted by Seton, op. cit., p. 71.

direct control of the Secretary of State is felt chiefly as regards the Services. Loans in England will continue to be floated by the Secretary of State on behalf of the Government of India till the establishment of Federation. The issue of such loans is made by the Finance Department. This department has also to deal with the financial relations with railways, e.g. revision of contracts, purchase of lines, etc., and with departments of the British Government, chiefly the War Office, the Foreign Office and the Admiralty.

The chief accounting officer of the India Office is the Accountant General. In the U.K. there are separate organisations for accounts and audit purposes. The Accountant General is, therefore, responsible for the receipts and payments of the India Office, for framing the estimates of receipts and disbursements (which are then submitted to the secretary of the Finance Department for scrutiny), for the preparation of the annual appropriation and finance accounts of the India Office for presentation to Parliament and transmission to India, for the placing of balances on loan or deposit, and for all questions about the staff which have a financial bearing.

The Auditor of Indian Home Accounts, though appointed by the Governor General, is yet guaranteed his independence. His salary is charged on the federal revenues and may not be varied to his disadvantage after his appointment ; and further he may only be removed from office in like manner and on like grounds as a judge of the Federal Court. His duties and powers, given by the Audit and Accounts Order and the Act, extend to the audit of accounts of transactions in the U.K.[1] pertaining to the federation or the provinces or the Federal Railway Authority, the granting of a certificate if he is satisfied with their correctness, and the submission of reports to the Auditor General of India for inclusion in the reports which the latter is required to submit by statute or otherwise. The

1. The audit conducted is comprehensive as he is required to examine and audit the accounts (including appropriation accounts) of receipts, expenditure and disposal in the U. K. of all moneys, stores and other property due to or held for federal or provincial purposes.

Auditor of Indian Home Accounts works under the general superintendence and control of the Auditor General ; and is required, therefore, to conduct his audit according to the spirit and terms of the concordats, apply[1] the interpretations given by the Auditor General of India, send his reports on dates prescribed by the Auditor General, prepare periodical summaries of any important audit matters not included in those reports and transmit them to the Auditor General with the observations of the Secretary of State and the High Commissioner, and report all important changes in methods and practices of audit and in the strength or cost of his establishment. He has free access to books of accounts and other documents, except those certified by the Secretary of State or the High Commissioner to be secret. He may also be required to audit transactions in England relating to Burma.

The new constitution provides, as did the old, for a High Commissioner for India to perform such functions, in particular the making of contracts, as the Governor General may direct him to do in connection with the business of the federation. The High Commissioner may with the approval of the Governor General perform similar functions on behalf of a province or federal state. The financial officer of the High Commissioner is his Chief Accounting Officer, who prepares the estimates of the office and keeps the accounts which are then audited by the Auditor of Indian Home Accounts. The work undertaken by the High Commissioner is purely non-political, except that he represents India at international conferences, and is chiefly in connection with agency functions, such as purchase of stores and the promotion of the welfare of Indian trade.

FINANCIAL ORGANISATION AT THE CENTRE

The centre is in a state of transition. Though federation has not been established, yet many features of the new constitution have already been introduced. The old legislature and the old executive continue, though exercising

1. To secure further uniformity all cases of importance are to be brought to the notice of the Auditor General by the Auditor of Indian Home Accounts.

almost all the powers given to the federal authorities. The Crown Representative discharges his responsibility through his own Political and Finance Departments ;[1] the latter being entrusted with the discharge of all financial business pertaining to the Crown Representative, the former enjoying such financial powers as may be delegated to it by the latter. The Auditor General of India is by statute required to audit the accounts of the Crown Representative and by arrangement also keeps the accounts.

The Governor General is aided and advised by his Executive Council. The power of the Governor General as against the council is very considerable, as was remarked in the previous chapter. However, in most matters the opinion of the majority is followed. The Executive Council decides all matters of policy including financial policy and functions on the portfolio system. A member of the council is at the head of each department of the government, and, except where large issues are involved or a point is disputed with another department, his decision is final on any point that may arise. All disputed matters are placed before the council for decision.

The Finance Member is the member of the Executive Council entrusted with the financial work of the Central Government. There is no statutory sanction, yet by the Rules of Business issued by the Governor General the Finance Member and his department have been accorded a primacy over the other departments.

This primacy to be effective will depend on two factors : the qualities of the Finance Member and the support he gets from the Viceroy. Constitutional practice in most countries gives the Finance Department a special status and expects from the Finance Minister qualities which are rarely combined in any single mortal. The Finance Minister must possess tact, wisdom, knowledge, integrity, firmness, a fine sense of justice and equity, a passion for economy and efficiency, and keen watchfulness over the credit and financial prestige of the nation. The Finance

1. Vide Ch. XIV, *D. The Crown Representative's Department.*

Minister must like any other human being be honest and sincere ; but it is not enough to be that. He must be well versed in finance and wise in the ways of men. Often he will have to criticise his colleagues and their schemes, and for this he will need infinite tact and firmness ; tact to deal with others with whom he is closely associated without causing them any hurt, firmness to adhere to his decisions in the interests of financial propriety. He has to judge the importance of the different schemes submitted by the various departments, and he must be guided in his choice by a well developed sense of justice and fairness, consistent with the broad outlines of policy laid down by the ministry. At all times he must work for economy and efficiency both in the planning of schemes and in the actual day to day administration ; at all times he must watch the state of the government's financial condition and maintain the credit of the country. Quite a hard task for any man to do ! That is why a Finance Minister has to be a man of a high intellectual and moral calibre. The country depends on him for its financial stability, and he ill performs his duty by the country if he fails in the tasks appointed to him.

But it should be remembered that the Finance Member is one among many in the Viceroy's Executive Council ; and unless he gets the all-powerful support of the Viceroy his cries for economy are in the wilderness, and probably after some protests on taking up his appointment, the Finance Member settles down to being a peaceful registering machine for the expenditure of the government. This fact has been admitted before public committees, and so long as the present powers of the Viceroy and the Commander-in-Chief continue, the Finance Member can do little, unless he receives full-hearted support in his drive for economy from both of them.

In the federation to come the Finance Minister will take the place of the present Finance Member, and his powers to effect economies will then be dependent not only on the Governor General but on his chief as well. Four-fifths of the expenditure at the centre is non-votable and subject to the Governor General's sole discretion. One-fifth of the

expenditure roughly is votable and therefore subject to the control of the ministry. The powers of the Finance Minister to control expenditure will depend on the policy of the cabinet and the attitude of the Prime Minister. The federal ministry when it comes into being will be a strange body combining the widely divergent interests in the legislature. It is hard to imagine what homogeneity the cabinet will possess ; and unless there is homogeneity the control of the Finance Minister will be a mere fiction. The French cabinet is also very loosely formed, and so the Finance Minister is never in a position to control the other ministers in financial matters in the same manner or to a like degree as the Chancellor of the Exchequer in England. Let it be remembered always that no one minister in a parliamentary form of government can be more powerful than the cabinet. Besides, as the position accorded to a Finance Minister depends very largely on constitutional conventions and practices, there can be no safeguard to his powers other than a high tone of public life in the country, which in the last resort means the character of the people and specially its leaders.

One of the special responsibilities of the Governor General is the safeguarding of the financial stability and credit of the Federal Government. For this purpose he may appoint a Financial Adviser to aid and advise him. This Financial Adviser will, however, be available to the Federal Government for advice on any matter relating to finance on which he may be consulted.

We have considered so far the central executive in their capacity as heads of the administration. We have now to inquire into the organisation and functions of the administrative agency concerned with finance. The Finance Department at the centre has a large organisation with a number of principal divisions, and is modelled on that of the British Treasury. The permanent head of the department is the Financial Secretary—who is a Secretary to Government and not a Secretary to the Finance Minister—and is assisted by Joint, Additional and Deputy Secretaries, Under-Secretaries and Assistant Secretaries and a large staff divided into different sections in charge of Superintendents.

The Finance Department has a number of divisions or branches, the department proper dealing principally with revenue, borrowing and the civil expenditure of the Government. The Central Board of Revenue in charge of two members who have the status of Joint Secretaries to Government is entrusted with the collection of revenue under customs, excise, salt and income-tax. The Financial Adviser, Military Finance, is attached to the Defence Services and may be considered the representative of the Finance Department with those Services. Similarly the two chief commercial departments of the government, namely, the railways and the posts and telegraphs have representatives of the Finance Department attached to their own departments in the persons of the Financial Commissioner of the Railway Board and the Financial Adviser, Posts and Telegraphs. Each of these branches has a large degree of autonomy, though there is a procedure by which the Financial Secretary to Government is kept informed of all the major issues ; there may even be issues on which the approval of the Financial Secretary is specifically required.

The constitution and functions of the Central Board of Revenue, and of the departments of the Financial Adviser, Military Finance, the Financial Commissioner, Railways, and the Financial Adviser, Posts and Telegraphs, will be dealt with in the chapters dealing with the execution of the budget[1] and some government departments.[2] We shall here describe the organisation of the Finance Department proper or what is also called the Civil Branch of the Finance Department. It is divided into a number of sections each under a superintendent assisted by his subordinate staff ; and each section deals with a particular subject or group of allied subjects. The Budget Section deals with public accounts, estimates and expenditure ; and the Ways and Means Section with public ways and means including loans to and from the public treasury. Other sections deal with the management of public funds, questions of taxation, though the actual administration of a tax will be entrusted

1. Ch. VII, *Central Board of Revenue.*
2. Ch. XIV, *A. Railways, B. Defence Services* and *C. Posts and Telegraphs.*

to the Central Board of Revenue, the pay and allowances of public officers, and the Indian Audit and Accounts Service.

The superintendent of the section is responsible for office discipline and the correct and efficient discharge of their duties by the clerical staff. Some sections are in charge of the Assistant Secretary, others in charge of the Under-Secretary. The section staff prepare the cases bearing on the subject entrusted to them and submit them with an office note giving all relevant facts to the Assistant or the Under-Secretary. Routine and unimportant matters are disposed of by these officers on their own responsibility or, if need be, after reference to the Financial Secretary ; but important matters must be sent to the Finance Member after the Secretary's views have been recorded on them. All cases of greater importance, and cases where there is a dispute between the Finance Department and other administrative departments of the government, are submitted to the Governor General, who may decide the case himself or order it to be brought before a meeting of the Executive Council.

References of minor importance which do not involve any new principles or departures from the established rules or customs are settled by the Financial Secretary himself. The Deputy deals with cases relating to expenditure, and either disposes of a case himself or if it is important submits it to the Finance Member, though if it is very important he submits it through the Secretary who records his opinion on the file. To keep the Secretary fully informed of all the work done by the department, even those cases submitted by the Deputy Secretary direct to the Finance Member for decision are passed on to the Secretary, after the Finance Member has made his decision on them.

The Secretary of the Finance Department is, as we have remarked, a Secretary to Government and not to the Finance Member, and hence his position is one of great responsibility. He is the permanent head of the department and therefore responsible for its general working. He attends on the Governor General once a week for the disposal of business and has the power to submit any case at any stage

direct to him. Hence cases in which the Financial Secretary differs from the Finance Member may be referred to the Governor General, who if he agrees with the Hon'ble Member disposes of the case himself ; otherwise the case must be brought before the Executive Council. The Governor General is authorised by the Act to prescribe Rules of Business for the conduct of the different departments and it is the duty of the Financial Secretary to see that they are carried out. Further he has to bring to the notice of the Finance Member and the Governor General any cases in which he thinks the special responsibilities of the Governor General are involved. Hence the part played by the Financial Secretary is very important ; he is kept informed of all the major issues not only in the civil branch but also in the other branches.

The functions of the Finance Department range over the whole field of finance—revenue, expenditure, taxation, ways and means, watching of balances, management of public funds and preparation of the budget. The Finance Department scrutinises all proposals for expenditure and has an effective control over expenditure, for it can refuse to make budget provision for any item not approved by it. The Finance Department is now directly concerned with the collection of revenue. This is a good feature which, because of the control it renders possible, should find a place even in the provincial financial organisation. The Finance Department derives its importance from the fact that it is the chief instrument to promote economy and efficiency in the administration.

The other administrative departments are concerned chiefly with policy but they have certain financial duties as well, some on their own responsibility, others by delegation from the Finance Department. Each administrative department is responsible for framing its annual estimates, for promoting economy in the policy it follows and efficiency in its day-to-day administration, and for watching the progress of expenditure against the grant allotted to it. If it anticipates excesses it must take steps to see that they are

regularised by supplementary grants. As regards re-appropriations within a grant between one minor head and another, it has certain powers delegated to it by the Finance Department. This device of making the head of the department responsible for economy and efficiency is very commendable ; for by this means, as in England, he has on the one hand a financial duty and on the other the requisite executive power to carry them out.

Below the departments come the controlling authorities who are entrusted with the control of the disbursing and estimating officers on matters connected with expenditure and budgeting. The controlling authorities possess within prescribed limits the power to sanction re-appropriations, have the obligation to watch the progress of expenditure against the sums allotted to them, and to bring to the notice of the administrative department all cases of anticipated excesses and savings, and within their jurisdiction have the responsibility for promoting economy and efficiency, and enforcing the financial rules that may be issued by the Finance Department. The disbursing and estimating officer —both functions are usually combined—is generally the head of the office to which he belongs. He has to watch expenditure against the primary units of appropriation, report all anticipated excesses and savings to the controlling authorities, prepare the estimates and carry out all the rules, regulations and orders issued by the administrative department or the Finance Department.

The foregoing also provides us with a sketch of the machinery of financial control as well. The Finance Department, the administrative department, the controlling authority and the disbursing and estimating officer— each has its part to play in the scheme of financial control, a part that is very important in fostering economy and efficiency.

Provincial Financial Organisation

Roughly the same system of administration prevails in the provinces as at the centre. The Governor takes the

place of the Governor General and like him has the control over the non-votable part of the budget. There is now no dyarchy, and so the Governor is aided by a ministry formed from among the members of the legislature. The Governor is constitutionally bound to accept the advice of his ministry except where he has to act in his sole discretion or in his individual judgment. He frames the Rules of Business for the conduct of the different government departments. Like the Governor General the Governor has his special responsibilities though none of them extends to the financial sphere.

The provincial ministry is collectively responsible for the policy followed. In the event of a breakdown of the constitution the Governor is empowered to appoint Advisers to help him to carry on the administration, and these then form the provincial executive. A minister is at the head of one or more departments. The Finance Minister is in charge of the Finance Department. As at the centre, all details of routine are settled by the department, the Finance Minister deciding the more important issues. What we have said concerning the centre applies *mutatis mutandis* to the provinces e.g. the primacy of the department, the effectiveness of its control, the position of the Finance Minister in the cabinet, the constitution and functions of the department, and the responsibilities of the administrative departments, the controlling authorities, and disbursing and estimating officers. Consequently, we shall select only a few points of difference between the two.

First, the provincial executive is a popular one ; the central is appointed by the Secretary of State. There is, therefore, fuller parliamentary government in the provinces than at the centre—a great difference in favour of the provinces. Secondly, the Finance Department in the provinces is a miniature of its central prototype, though it is not entrusted with the collection of revenues.

In Bombay, e.g., the Finance Department is organised as follows : the Financial Secretary is the permanent head of the department and is assisted by two deputies ; one for

services, that is, in connection with establishments in the whole province, and the other for budget work, that is, in connection with loans, ways and means advances, estimates, taxation and treasury control. There is an Assistant Secretary who is responsible for the efficiency of the office. There are seven sections in charge of Superintendents concerned respectively with taxation, scales of pay, leave, pension and Bombay Civil Service Rules, commercial statistics, loans and contingent charges, recruitment rules, and the budget. The budget section is very important and is further divided into subsections for ways and means and for estimates.

Other and smaller provinces will have an even smaller organisation. The volume of work in the provinces is fractional compared with the centre, though in variety it is almost as co-extensive[1] ; for with autonomy the provinces have had to undertake many functions, e.g. ways and means, watching of balances with the Bank, etc. which previously were looked after by the centre. Responsibility is the price of self-government.

Thirdly, the area of operations is considerably smaller. The size of a country presents peculiar administrative problems. From these difficulties the provinces are exempt.

Fourthly, the provinces have separate departments for revenue collection. There is a Revenue Department that is principally engaged in the administration of land revenue but is also entrusted with the collection of revenue under stamps, registration, etc. There is a special Excise Department for the collection of excise duties on alcohol ; but it is administratively under the control of the Revenue Department. Both these departments will be treated in the chapter dealing with the execution of the budget.[2]

The provinces are empowered to have their own Auditor General for purposes of accounts and audit, provided certain conditions are fulfilled. The Provincial

1. The provinces are not concerned with exchange, currency, mints, the all India undertakings and services, sterling debt and a few other subjects.

2. Ch. VII, *The Revenue Department.*

Auditor General will then perform all those duties which are now carried out on behalf of the province by the Auditor General of India, through his provincial Accountant General, except that all directions on the methods and principles of keeping accounts by the Auditor General must be observed by his provincial counterpart.

The Indian Audit Department

The Indian Audit Department serves the audit, and very largely too the accounts, requirements of the centre and the provinces, even though the expenses of administration are borne entirely by the former. Partly no doubt because of this financial benefit, even though provision has been made in the Act for the appointment of a Provincal Auditor General, no province has so far availed itself of the opportunity.

The Auditor General of India is appointed by His Majesty and assured by statute of his status, and detachment from and independence of the executive. He may only be removed from office in the same manner and on the same grounds as a judge of the Federal Court. His salary, allowances and pension are charged on the federal revenues; and his rights and privileges may not be varied to his disadvantage after his appointment. To secure full detachment from the executive he is debarred from holding further office under the Crown in India after he has ceased to hold office. The conditions of service of the Auditor General are prescribed by the Audit and Accounts Order. His powers and duties, both as regards audit and accounts, are also amplified in the Order and will be dealt with in detail in the chapter on Audit and Accounts.[1] The independence of the Auditor General is also enjoyed by the officers and staff of his department. One important peculiarity of the Auditor General must be noted. He is not the specific agent of the legislature as is the Comptroller and Auditor General in the United Kingdom of Parliament. That is why all

1. Vide Ch. IX, *The Auditor General and Accounts* and *The Auditor General and Audit.*

reports by the Auditor General of India are submitted not to the legislature directly but to the Governor General or the Governor for transmission to the legislature.

The Provincial Auditor General, if appointed, will have the same powers, privileges and responsibilities as the Auditor General *mutatis mutandis* with respect to a province, subject to two differences, first, that the Auditor General of India shall have the power to give directions with regard to the methods or principles that should govern provincial accounts, and secondly, that a Provincial Auditor General is eligible for appointment as Auditor General of India.

Working under the general superintendence and control of the Auditor General for the audit of transactions in the United Kingdom relating to the federation or the provinces is the Auditor of Indian Home Accounts of whom mention has been made in a preceding section of this chapter.

The Indian Audit Department is the agency through which the Auditor General performs his accounting and audit functions and of which he is also the administrative head. The organisation of the office of the Auditor General consists of the Deputy Auditor General, the Assistant Auditors General and the office staff. The Deputy Auditor General acts as the Chief of Staff, and except as regards statutory reports is empowered to deputize for the Auditor General in any matter and to any extent, as may be determined from time to time mutually between the Auditor General and himself. The Deputy Auditor General is responsible for the efficient working of the office and issues orders in the name of the Auditor General, subject to his general control. In the administration of the office the Deputy Auditor General is assisted by the Assistant Auditor General (Personnel) who acts as the executive head of the current administration of the office.

The office of the Auditor General undertakes no original audit work. It prepares the Combined Revenue and Finance Accounts, deals with the framing of rules and

regulations and the issuing of orders, and prepares all cases bearing on audit, accounts or classification which have been referred to the Auditor General for decision or guidance. The Auditor General and his deputy go frequently on tours of inspection, so as to maintain a high and even standard of efficiency among the different audit and accounts offices under his control.

The Indian Audit Department is spread throughout India and is divided into four classes of offices, namely, the Civil and Posts and Telegraphs Audit Offices and the Railway and Defence Services Test Audit Offices, the first two of which are combined audit and accounts offices while the latter two deal only with the audit of the accounts of their respective departments. The Auditor General discharges his statutory responsibility for audit through the Heads of the Civil Audit Offices, the Accountant General, Posts and Telegraphs, the Director of Railway Audit and the Director of Audit, Defence Services, who respectively control the four classes of offices.

Civil audit includes the audit of transactions of the Civil, Public Works and Forest Departments. There are thirteen Civil Audit and Accounts offices under the Accountant General, Central Revenues, the Accountants General of Madras, Bombay, Bengal, the U.P., Bihar, Punjab and the C.P. and Berar, the Comptrollers of Assam, N.W.F.P., Sind and Orissa, and the Chief Auditor, Indian Stores Department. The first audits the central civil transactions, other than those occurring in the provinces, and the transactions of other centrally administered areas, and co-ordinates the customs revenue audit under the control of other civil audit officers. The last audits the transations of the Indian Stores Department and the Department of Central Excises and Salt, Northern India. And the rest audit the transactions of their respective provinces and most of the central civil transactions occurring in those provinces.

The accounts of the Railways and the Defence Services, which have their own accounting organisations

under executive control and separate from the audit offices, are compiled by the Controller of Railway Accounts and the Military Accountant General respectively. The former is directly subordinate to the Financial Commissioner of the Railway Board and the latter to the Financial Adviser, Military Finance. The full organisation of the accounts and audit offices of the Railways and the Defence Services, as well as of the Posts and Telegraphs is given in chapter XIV.

The Accountant General or the Comptroller of Accounts in a province is the representative of the Auditor General for the provincial transactions and an Accounts Officer for the transactions of the centre within his circle of accounts. As regards the former he is the chief Accounts and Audit Officer for the province ; as regards the latter he is merely one of those officers whose work will later be co-ordinated by the Accountant General, Central Revenues. All civil audit offices are combined offices and hence the Accountant General is entrusted with both accounts and audit functions.

The office of the Accountant General is divided into a number of sections according to the nature of the work to be performed. The general or routine section sorts out the inward correspondence, accounts, vouchers and other receipts of the office and distributes them to the sections whose duty it is to deal with them. There are a number of sections dealing with audit, such as the departmental audit sections for the audit of transactions of the various government departments, and the gazetted, works, pension, forest, deposit and provident fund audit sections. The work of all these sections is checked by the Appropriation Audit Section. The classification and compilation of accounts is the work of the Book Section ; accounts adjustments are carried out by the Account Current Section. The Budget Section deals with budgetary work, both of the province and the centre. The Higher Audit Section is concerned with the audit of transactions from the point of view of audit principles not covered by codes. The Local Fund Audit Section audits the accounts of the local authorities.

Sometimes there is a Report Section for the preparation of the reports on the Appropriation and the Finance Accounts.

The Accountant General bears the general responsibility for the whole work of the office and particularly for the efficient administration of his office establishment. He also takes direct charge of the three most important sections, namely, the Budget Section and the sections exercising higher audit and appropriation audit functions.

To assist him there are the Deputy Accountants General, the Assistant Accountants General (for officers belonging to the Indian Audit and Accounts Service) and the Assistant Accounts Officers. The larger offices have two deputies, the smaller only one. The Accountant General distributes the work to these officers with a view (*i*) to relieving himself of the details of office administration by making one of the deputies responsible for routine work, (*ii*) to placing all audit work under the general control of the deputies, and for that purpose (*iii*) to releasing them from detailed sectional work, which is the responsibility of the section superintendent.

The Civil and Posts and Telegraphs Audit offices are inspected by Inspection Accountants appointed by the Auditor General. The Inspection Accountant is an independent agency at the disposal of the head of an office, by which he may ascertain whether his responsibility for the efficient working of the office is being fully and consistently discharged.

PART TWO

CENTRAL AND PROVINCIAL BUDGETS

CHAPTER V

THE PREPARATION OF THE BUDGET

HAVING completed the preliminaries we come now to the system of financial administration that prevails in our own country. The whole of this second part is devoted to the central and provincial budget systems, other aspects of financial administration being set out in the third part. In the first two chapters were considered the principles and procedure relating to budgets ; in the light of those principles and practices we are able to judge the standard of efficiency of our own system which, being modelled on that of the British, for the most part conforms to the principles of a sound budget system. Differences between our system and that of the United Kingdom arise owing to (*i*) the peculiar constitutional position of the central and provincial governments, (*ii*) the size of the country, and (*iii*) the practices handed down from the days when the government of India was centralised and fully bureaucratic. In the provinces with the introduction of provincial autonomy there is a fair deal of self-government ; yet the limitations of the Central Government affect them in a number of ways, for of necessity the national government must exercise some control over the smaller units.

In this chapter we shall deal with the preparation of the budget which, as we have seen, is the first stage in the budgetary process. The procedure in India is in full accord with financial theory ; for the executive prepares the budget, and then jointly defends, on the floor of the legislature, those parts which by the Act are to be submitted for legislative sanction. Again both at the centre and in the provinces, there is a regular hierarchy of officials and departments, and this affords an opportunity for review, criticism and check many times over from different angles of vision. The method is slow but it has the advantage of being sure.

The provinces have been given the pride of place in

this chapter, because they have a larger measure of self-government than the centre, where the powers of the legislature are severely curtailed, and because the centre is in a state of transition.

It will be useful and convenient at the outset to indicate the various stages in estimating. (*i*) The initial estimates are prepared by the heads of offices and (*ii*) then scrutinised by the respective departmental controlling authorities. (*iii*) With regard to certain estimates, as salaries of officers and staff, where reference to records is needed, the local Accountant General in the provinces and the Accountant General, Central Revenues, at the centre help in further scrutiny. With regard to other estimates the respective administrative departments scrutinise and consolidate them, then forward them to the Finance Department. This department reviews them for the last time before incorporation in the budget. Administrative departments may appeal from a decision of the Finance Department to the cabinet or Executive Council. The revenue estimates are prepared by the Finance Department. (*iv*) The next stage is a forecast of probable revenue and expenditure for the next year, based on the policy which has been adopted by the executive. (*v*) The Finance Department then consolidates the estimates and prepares the demands for grants and the budget notes. (*vi*) Next comes the scrutiny of new items of expenditure by the Standing Finance Committee of the legislature and the final decision of the Finance Department with regard to the estimates. (*vii*) The budget notes are revised and budget estimates corrected to conform to the orders issued by government who collectively review the estimates. (*viii*) Lastly, the final compilation of estimates is undertaken and the printed estimates and demands for grants are ready for presentation to the legislature in February.

A. The Provincial Budget

Budgetary Agencies

On the Governor of the province rests the constitutional responsibility to prepare and to present to the chamber or

chambers of the legislature a statement, and if required a supplementary statement also, of the estimated receipts and expenditure of the province for the financial year.[1] In practice it is the provincial ministry which is responsible for the preparation of the estimates ; and the ministers, being members of the legislature, have full opportunity to explain and defend them.

In this most important task of preparing estimates the Governor and his ministers are assisted by the Finance Department consisting of trained and experienced personnel. Under the old constitution the Devolution Rules[2] showed *inter alia* the duties and consequently the responsibilities of the Finance Department. This department was responsible for framing proper financial rules for the guidance of other departments and for seeing that suitable accounts were maintained by them. It was entrusted with the preparation of the annual and supplementary estimates and of the demands for grants and excess grants to be submitted to the legislature, and with the task of watching the state of provincial balances. It was entitled to obtain from other departments concerned the material on which to base the estimates, for the correctness of which it was responsible. It had the duty of examining and advising on all schemes of expenditure required to be provided for in the estimates, and had the power to decline to include provision in the budget for any scheme which it had not scrutinised.[3]

With the new constitution the Devolution Rules have ceased to be in operation, but the Governor is empowered to frame Rules of Business[4] for the conduct of business of the different departments. As the old traditions in financial procedure have been maintained, it may easily be guessed that the substance of the old rules are now contained in the Rules of Business. Hence the Finance Department has the responsibility for the financial business of the

1. Ss. 78 (1) and 81.
2. Under Ss. 45A and 129A of the Act of 1919.
3. Rule 37 (*e*). Vide Appendix III.
4. S. 59 (3). The Rules are confidential.

government and for enforcing economy by an examination, if necessary by a revision, of all expenditure. This power enables the department to frame a balanced budget. It calculates the income ; it regulates the expenditure. The Act provides[1] that all items of receipts and expenditure should be placed before the legislature, and hence the budget prepared by the Finance Department must be comprehensive and unified.

The Finance Department has thus a certain priority over other departments. Not being a spending department itself, it is in a good position to judge the requests that come from the other departments. However, the Finance Department does not possess finality of decision, for questions of policy are the preserve of the cabinet, which also decides all cases in which there is disagreement between the finance and other departments. The decision of the cabinet is final, subject only to the Governor's special powers and responsibilities.[2]

The administrative and other departments of government must supply the Finance Department with the necessary data on forms specially prepared for that purpose and despatched every year to the different budgeting authorities. The administrative departments may and should scrutinise and revise the estimates of the subordinate officers under their control. The Finance Department welcomes such criticism but is not bound by it ; it is for the Finance Department to decide whether an estimate should be admitted at all, and if so, whether at the original or a revised figure. The aggrieved department has of course the right to appeal to the cabinet for a decision ; but every estimate must first be examined by the Finance Department. The cabinet will decline to consider proposals not so examined.

So great is the control of the Finance Department that no proposal or scheme that has, or is likely to have, a financial bearing can be sanctioned by an administrative

1. S. 78 and Rules under S. 151.
2. That is, all matters coming within the sphere of his individual judgment or sole discretion.

department without the prior approval of the Finance Department. Truly then the Finance Department is designed to be the watch-dog of provincial finances.

As was said in a previous chapter, if the Finance Minister is strong and capable and has the ear of the Prime Minister, the tax-payer will benefit from the economy that will result. But a stronger safeguard than the Finance Minister against waste is public opinion. If opinion favours expenditure, no Finance Minister can stem the tide. He will be called conservative, unprogressive, reactionary.

Though it is the Finance Department that is ultimately responsible for the budget estimates and the demands for grants, each administrative department of the government is responsible for the material it supplies and the policy followed. While it is the primary function of the Finance Department to enforce economy, it is obvious that the first and best place to practice economy is in the office or department itself. Internal check on wasteful expenditure is perhaps more important and certainly more fruitful than the Finance Department's supervision. Hence every head of an office bears the responsibility for the estimates pertaining to his office, and submits the detailed estimates through the controlling authorities to the administrative department concerned. The administrative department thus gets the remarks and criticisms of these controlling authorities. It is easy for an establishment to concentrate only on the services it renders to the public. The controlling authorities are in a position to consider all estimates in a better perspective. The administrative department views them from a broad aspect, while the Finance Department is expected to scrutinise all estimates not only in a broad but also impartial manner; for it is there to carry out the cabinet's plan with the greatest economy and the smallest burden to the tax-payer.

The Financial Year

All estimates are framed for the year commencing from 1st April. It is characteristic of the Indian budget

system that estimates of revenue and expenditure are presented together, and are discussed and voted upon before the financial year to which the budget refers begins.[1]

The date of commencement has to be so chosen that estimates, particularly of revenue, may be framed intelligently and with confidence. For this purpose the conditions affecting revenue have to be known to some extent at least, or the estimates will be either mere guesses or arithmetical averages of past years. From this point of view it is difficult to see why 1st April was chosen. As was remarked in a previous chapter, historical conventions and traditions powerfully affect financial administration. The British administrator was accustomed to the financial year beginning on 1st April ; he, therefore, adopted it in India without giving further thought to it. One of the reasons suggested before a Royal Commission was, that the date was fixed to suit the Viceroy's touring in the month of April before taking up his residence in Simla. It was also said that the date was fixed to suit the convenience of English officers who go on leave usually from the end of March. Another reason might have been the fact that the Secretary of State was required to place the accounts of Indian revenues before Parliament in the month of May.

The need for a change in the date is due to the country's dependence on agriculture which in turn depends on the monsoon. As, further, industry is also affected by trends in agriculture, a bad monsoon affects the whole economic life of the country. Hence it is advisable to have the year start after the monsoon season is over.

The Welby Commission recommended 1st January, the reason adduced being that it was confusing to the public to have three statements before it, namely, the estimates of the coming year, the revised estimates of the current year, and the completed accounts of the previous year. This reason does not seem to hold much water. All three statements are necessary to assess the policy implied in the estimates ; for

1. Cf. Ch. II, *Time of Preparation.*

which purpose the completed accounts of the previous year should be made available sometime before the next year's estimates are published.

The Chamberlain Commission recommended 1st November or 1st January, so as to overcome the difficulties of the monsoon. The Government of India gave the recommendation their earnest consideration and invited opinions from the Provincial Governments and the Chambers of Commerce. But these thought that the disadvantages would outweigh the advantages. There would be difficutlies in the field of accounts, which would have to be recast, and of administration, for various arrangements would have to be altered. The matter was, therefore, dropped[1] and has not been taken up again.

Perhaps 1st December would be preferable to either of the dates suggested by the Chamberlain Commission. Coming after the monsoon and during the cold weather season in India that date seems most suitable, provided of course that both revenue and expenditure estimates are presented together and before the commencement of the financial year. If, however, the British practice is adopted and revenue proposals are presented after the commencement of the year, so as to have the actual figures for the year just ended, then the financial year should begin on 1st October, so that in either case discussion of revenue estimates

1. "The Government of India have had under consideration the question of changing the date of the commencement of the Indian financial year from 1st April to 1st November or 1st January. The matter has been raised on more than one occasion and notably by the Royal Commission on Indian Finance and Currency of 1913, the main object in view in advocating a change being that it would facilitate more accurate budgeting.

The opinions of the Provincial Governments and the Chambers of Commerce were invited on the proposal in a circular letter, which was also published in the Press. The replies show that the Provincial Governments are unanimously of opinion that the disadvantages which would result from the change would outweigh the advantages, while opinion among the commercial bodies is divided. After considering the matter in all its bearings, the Government of India have now decided to drop the proposal for a change."—Government of India Resolution, No. 83 F, dated 18th January, 1923.

and taxation proposals may be taken up by the first week of November.

Classification

The constitution requires that items of expenditure should be classified as voted or charged upon the revenues, the difference being that the legislature votes the former, but only debates the latter (excepting amounts relating to the Governor's salary, his allowances and other expenditure relating to his office, for which provision is made by an Order in Council). Again, expenditure from revenue is to be differentiated from expenditure from other sources. In addition, sums included by the Governor for the discharge of any of his special responsibilities must also be shown. Only those items which are not charged on the revenues are submitted to the legislature in the form of demands for grants on the recommendation of the Governor.[1] So in this matter of executive recommendation for expenditure, what the British House of Commons achieves by a self-denying ordinance,[2] the provincial legislatures accept by statute.

The budget follows the form of accounts, even though in theory it is the accounts that must follow the budget. Hence it is, says Hilton Young, that "no man can tell what some of the estimates mean."[3] Estimates are prepared on a departmental basis, one or more major heads being entrusted to a department. So also a demand for a grant is prepared generally for each major head of account, divided into minor heads and still further into sub-heads and primary units of appropriation.[4] The form of accounts is determined by the Auditor General of India under S. 168 of the Act.

General Scheme of Estimates

The different departments have to be prompt in budgeting, as otherwise the work of the upper grades of the

1. Ss. 78 and 79.
2. Rule 66 of the House of Commons Standing Rules.
3. *The System of National Finance*, p. 27.
4. Vide Appendix XII (B).

hierarchy of control[1] is dislocated. This is stressed in all government financial rules and is repeated in the formal budget letter which accompanies the budget forms sent out by the Finance Department.

Revised estimates of receipts and expenditure of the current year's budget are prepared together with estimates of revenue and expenditure for the next year. All estimates are in two parts. The first, called 'standing charges,' relates to revenue and to fixed and fluctuating charges. Fixed charges are those which, though they may vary from year to year, are nevertheless not dependent on the volition of the head of the department, e.g. permanent establishment, travelling allowances, and ordinary contingent expenditure. Fluctuating charges are those which, though not connected with new objects of expenditure, are nevertheless liable to fluctuate materially from year to year and which require to be scrutinised by government themselves before they can go into the budget, e.g. purchase of quinine or animals, purchase of raw materials for jails, plantation labour under Botanical Survey, excavations under Archaeology, etc. The second part, called 'new items,' relates to new objects of expenditure for which it is necessary to obtain the approval of the Finance Committee[2] or for which approval has been obtained before the presentation of the estimates.[3]

Before 1934, fluctuating charges constituted a part by themselves in contrast with the constant and fixed charges. But as it was found that even fluctuating charges were fairly constant or definite, the two have been amalgamated. The new arrangement is simpler and is designed to give more time for the examination of estimates of new items. It has also been necessitated by the tremendous growth in work, the result not only of an increase in population but of the

1. For specimen of hierarchy of control over estimates, see Appendix XII (C).
2. There is no Standing Finance Committee as at the centre, elected from among the members of the legislature, but a small committee of members of the legislature whose advice is available to the Finance Minister on any matter he may choose to place before it.
3. Vide F. D. R. No. 2041-F, dated 12-7-21 and Financial Rules of the Provincial Governments.

new spirit of national progress which demands increasing beneficent services. The older order was static, the new is dynamic.

For the estimates of revenue departmental officers are responsible. They are expected to give accurate forecasts from a comparison of the figures for past years and any other knowledge that may come to hand. Experience and shrewdness are required for such forecasts. The estimates of 'standing charges' may be calculated with almost mathematical accuracy. Estimates of salaries, both of officers and establishment, can be calculated exactly. The provincial Accountant General checks scales of salaries, increments, leave privileges, etc. with reference to the service records he keeps. Fluctuating items can be estimated fairly accurately by the method of averages, and, therefore, the Finance Department and government need not go through these estimates in detail, specially as they will not be in a position to modify them substantially. Fresh items are more carefully examined before being included in the budget estimates for the year. Yet the division of the budget into standing charges and new items is fraught with dangers. Expenditure on items once necessary, but now of little or no use, will get their usual quota of appropriation. No doubt there is the usual letter sent out with the budget forms requesting all budgeting officers to see that every care is taken to enforce economy and that variations from the previous three years' actuals are explained. But budgeting authorities, while being careful not to increase figures without good reason, do not have the necessary stimulus to effect retrenchment. The staff perhaps have got used to the type of work, and it would disturb their present harmonious working if any changes were introduced ; worse still in the course of the year work might increase and the staff would then be again inadequate. After all the budgeting officer is human ; so he takes the line of least resistance, in this case of least explanation, and above all takes no risks.

Hence unless the higher controlling authorities and the Finance Department scrutinise the necessity of abolishing or modifying certain items, there is bound to be accumulation

of items, which are a real waste of the tax-payer's money.[1] Hence also the need for a periodical examination, say every three, four or at most five years, of all items of expenditure, so as to evaluate their relative importance and weed out useless expenditure. Besides this a rigid policy of economy is required on the part of the cabinet, for unless the cabinet aids the Finance Department, the latter will be powerless.

All new items must be considered and sanctioned before provision is made in the budget estimates. All the year round, or better still as soon as the need arises for new expenditure, plans are submitted by heads of offices and departments to their administrative departments; and after these have satisfied themselves about the need and the cost, the estimates are examined and checked by the Finance Department, and if approved may be included in the next year's budget. Expenditure not so approved previously must be sent for approval with the budget estimates. Advantage is taken by the departments of the pressure under which the Finance Department works during the budget season to have another try to get their plans sanctioned.

Estimate forms are sent out by the Finance Department in triplicate sometime in the first week of August to the estimating officers, who are the heads of offices. These heads of offices submit their estimates through the controlling authorities to the administrative department concerned. The controlling authorities consolidate their estimates before forwarding them to the administrative department by 1st October, and the administrative department forwards the consolidated estimates and the separate estimates with remarks to the Finance Department by 1st November. The

1. In this connection the financial rules stress a few things which from the standpoint of economy are very important: (*a*) Estimates of fixed charges have not to be treated as fixed for all time, but reviewed by heads of departments from time to time. (*b*) Fluctuating charges are based on the past three years' actuals but explanations should be given for increases or decreases in the ensuing year. (*c*) Recurring contingent expenditure should not be considered recurrent for all time, but reviewed from time to time. (*d*) If allotment for contract contingencies has been exceeded in one year, there must be a corresponding reduction in the accounts in the following year.

estimates of salaries and establishment charges are sent, one copy to the administrative department and the other to the Finance Department through the Accountant General and the administrative department. By 1st November these estimates are received by the Finance Department from the Accountant General with his certificate and remarks by the administrative department. Estimates of fluctuating items are forwarded by heads of offices to the controlling authorities who consolidate them showing figures for each disbursing officer separately, and explain the increased provisions and important variations from the actuals of the past three years. The administrative department scrutinises these consolidated statements and forwards them with recommendations, if any, to the Finance Department by 1st November. The Finance Department decides all points. Regarding fresh charges, portions which are non-recurrent, terminable recurrent[1] and recurrent are carefully indicated.

In the preparation of estimates the Accountant General assists the Finance Department on all financial matters with advice based on the accounts he keeps, and in particular with advice relating to the form of accounts, audit registers, new heads of expenditure, etc.[2]

1. The same expenditure as in the previous year but not a permanent addition.

2. The procedure outlined above is the normal one. But owing to special or technical considerations there are slight differences in the preparation of the estimates under some heads which are here considered.

Public Works Department. Controlling officers of this department submit estimates by the middle of September, and by 15th October heads of departments forward lists of the new major works which have been approved by government for execution in the ensuing year. For greater accuracy and economy works whose estimates are more than five years old are struck off the list. During the month of September the administrative departments and the Commissioners scrutinise these estimates, and by 15th October the estimates are forwarded to the P.W.D. which sends them to the Finance Department by 15th November. Only works approved and technically sanctioned to that date are sent to the Finance Department.

Civil Works. The procedure is similar to the above. With regard to major works in progress demands are sent with full explanations for their necessity. Only amounts that can be fully and usefully spent during the year are to be included and even these are required to be revised in the light of actual expenditure. Minor works are financed from discretionary grants to local officers. Each

Form of Estimates

Every estimate form is provided with a number of columns. There is a column for the major, minor and sub-heads, another for the primary and secondary units of appropriation, then follow three columns for the actuals of the three previous years. The actuals of the year just ended are not known till later in the year ; hence the preliminary figures given will need to be corrected later on. The next two columns are for the current year's budget and revised estimates. The next five columns deal with next year's estimates as given by the estimating officer, the controlling officer, the Accountant General if needed, the administrative department and the Finance Department. The last column is for explanations for increases as well as decreases. The revised

demand must be accompanied by adequate reasons, the past three years' actuals and likely expenditure for the current year. For the continuance of major works, the system of re-grants of lapses is devised, and therefore the likely amount of lapses by works is communicated to the P. W. D. by 20th December.

Irrigation. Owing to the large schemes involved, irrigation has acquired a prominence of its own. The procedure is similar to that for major civil works. Each major irrigation head of account has a separate budget and each budget gives details as to the works in progress, maintenance, repairs and new works. Anticipated lapses and re-allotments for the ensuing year have to be submitted by 20th December.

Debt Heads. Controlling officers receive estimates from subordinate authorities by 1st October and after consolidation forward them direct to the Finance Department within a fortnight. Estimates of loan funds are submitted by the administrative department to the Finance Department by 20th November.

Expenditure in England arises owing to leave and deputation allowances, sterling overseas pay, scholarship stipends, etc. Provision for expenditure under capital heads is made under the same heads in the corresponding Indian expenditure. By 1st September, heads of offices furnish the administrative departments with statements of those likely to be on leave or deputation out of India and who will draw their salary in England. After scrutiny the statements are sent to the Finance Department which after consolidation informs the High Commissioner and the Secretary of State. After 25th September such information is sent direct to these authorities by the administrative departments and copies furnished to the Finance Department.

Stores. This expenditure is based on forecasts sent to the High Commissioner by indenting officers and is later modified by him with reference to later information about prices, etc. Estimates are prepared by the end of August and sent to London. Exchange is calculated for estimates at the official rate. Provision for loss or gain in exchange is made in the revised estimates.

estimates column has two sub-columns, one giving five, six or seven months' actuals of the current year and the other the actuals respectively of the seven, six or five last months of the preceding year.[1] Hence revised estimates are based on the actuals of the twelve months immediately preceding the date of estimating, though these figures are corrected in the light of any other information that may be available. These revised estimates are important to show the trend of expenditure in the current year. Revised estimates are a material factor in arriving at the budget estimates of the next year, and so great care has to be bestowed in preparing them.

Revised Estimates

These are in addition to those prepared at budget time and are required, both for receipts and for expenditure. If revenue has fallen short of expectations steps must be taken to reduce expenditure ; if expenditure has exceeded or is likely to exceed appropriation limits, then supplementary estimates have to be prepared for presentation to the legislature.

Departmental officers have the duty to keep themselves duly informed about the progress of revenue and expenditure under different heads and compare them with the figures for the corresponding period of the previous year. Revised estimates must be prepared as accurately as possible[2]; and registers are kept to show revenue likely to be realised or expenditure to be incurred in the remaining months. By 1st November controlling authorities send to the administrative and Finance Departments a report regarding probable alteration in budget estimates of receipts and expenditure by minor heads on the basis of six months' actuals and other information. By 4th January another report based on the first eight months' actuals and other information is submitted for receipts by minor heads and for expenditure by primary

1. Specimen forms for standing charges as well as new items are given in Appendices XIV (A) & (B) and will provide a clear idea of the different columns enumerated above.

2. Vide Appendix XIV (C).

units under each minor head or sub-head. Lastly on 3rd February another revised estimate is forwarded, this time based on nine months' actuals and other information obtained. In the month of December the Finance Department works out a forecast of probable revenue and expenditure for the next year. This forecast is based on the estimates of standing charges and on the six-monthly revised estimates of the current year's budget.

Consolidation and Review of Estimates

Consolidation and review of estimates is the task of the Finance Department. Consolidation is made by major heads of account on printed consolidation abstract forms.[1] The form has many columns so as to furnish suitable statistical data. There is a column for the actuals of the first eight or nine months and another for the last four or three months of the last year respectively. Then come actuals of the five previous years, the budget and revised estimates for the current year and lastly the budget estimates for the coming year.

Review of estimates takes place through what are called budget notes by the Finance Department on proposals submitted by the administrative departments and on the consolidated abstracts mentioned above. Formerly there were two editions of such notes according as eight or nine months actuals of the current year were available. Now both on grounds of economy and to save time there is only one edition. As the budget notes are prepared, the compilation of demands for grants for submission to the legislature is taken in hand. After 11th February, very few corrections are made and only if the amounts involved are large.

In the second week of January a detailed note of budget estimates by major heads is forwarded to government. If any excess over a grant for the current year is likely, steps are taken to regularise it. The Finance Department when it prepares its budget notes has more recent figures than the departments which scrutinised the budget estimates

1. Vide Appendix XIV (E).

earlier. The budget note shows actuals of the previous year, budget estimates of the current year, budget etsimates of the ensuing year, as proposed by the controlling authority and the administrative department and remarks and explanations on any points of importance. New items are placed before the Finance Committee sometime in December. Along with the budget notes demands for grants[1] are prepared for expenditure estimates which are votable.

The cabinet collectively consider the estimates about the second week of January and their decisions are noted by the Finance Department. This meeting is preceded by a meeting of the departmental secretaries.

Budget Publications

There is the Book of Civil Estimates, which is very detailed, and an accompanying memorandum which embodies the notes and explanations bearing on the estimates. Changes in taxation are revealed only in the budget speech which is printed and circulated to the members of the legislature. The three together give a fund of financial knowledge on which the student of finance and the legislator may work. But there is need for a handy publication giving the budget speech and summary tables and statements for the guidance of the legislature and the public, somewhat on the lines of "The Budget" published by the Central Government.

B. The Central Budget

The vast size of the country and the large volume of transactions necessitate a large administrative machinery. What the divisions are to a province, the provinces are to the whole country. In the central organisation the Accountant General, who is the principal auditor of a province, becomes at once a budgeting, accounting and auditing officer. Another peculiarity is the large departments with their organisations spread all over the country. The railways have a separate budget devoted to them which is

1. Vide below Ch. V. *Budget Demand Statements,* where demands for grants have been dealt with at some length.

considered before the general budget is taken up. The railway budget which is an annexed or auxiliary budget is dealt with in chapter XIV.

The system for the preparation of estimates at the centre is the same as that in the provinces. Consequently only differences between the two and points of special importance are dealt with.

Budgetary Agencies

The Governor General as the executive head of the Central Government, like the Governor in the province, is entrusted with the preparation of the annual financial statement, the supplementary estimates and the demands for grants, and their submission to the legislature.[1] In this important task he is assisted by the Finance Member of his council and the expert and experienced staff of the Finance Department.

The Governor General has the responsibility (which the Governors of the provinces have not) for safeguarding the financial stability and credit of the Federal Government ; and for the efficient discharge of this special constitutional responsibility he may, when the federation is established, appoint a Financial Adviser, whose advice will also be available to the Federal Government upon any matter on which he is consulted.

The Finance Member, in the federation to come the Finance Minister, and his department are the ordinary guardians of economy and financial stability ; and by the Rules of Business framed by the Governor General are entrusted with all the financial business of the government and accorded a priority over other departments. What is expected of the provincial Finance Department may surely be expected, and even more, from the Central Finance Department for it must set a high standard for the provinces to imitate.

1. S. 33 (1) and S. 36.

General Scheme of Estimates

The estimates of the Central Government comprise (*a*) the estimates of civil departments[1] and territories administered direct by the Central Government, (*b*) estimates of non-civil departments, namely, the Military, the Railway and the Posts and Telegraphs Departments, and (*c*) the estimates of the India Office and the High Commissioner for India in London, also called 'Home Estimates'.

Civil estimates and estimates of territories directly administered by the centre as Baluchistan, Coorg and Delhi are prepared by the administrative officers, scrutinised by the local Accountant General and then submitted to the Accountant General, Central Revenues, who consolidates the estimates. Agency subjects are those administered for the centre by the provinces ; and estimates of these subjects are compiled by the Provincial Government and submitted to the centre through the local Accountant General.

Estimates of the Defence Services are prepared by the Finance Adviser, Military Finance, of the Railway Department by the Financial Commissioner of the Railway Board, of the Posts and Telegraphs Department by the Financial Adviser, Posts and Telegraphs. These are dealt with in a subsequent chapter.[2]

The estimates of the India Office are compiled by the Accountant General, India Office, under the direction of the Secretary of State and the estimates of the High Commissioner's Office by his Chief Accounting Officer. The estimates of the latter relate chiefly to the expenditure in England on behalf of the centre and the provinces, for he is the agent of these bodies. The estimates he sends are incorporated in the central or provincial estimates. The estimates of the India Office prepared by the Accountant General are scrutinised by the Finance Department of the India Office. The expenditure of the India Office and the High Commissioner's office is met from Indian revenues.

1. That is all departments save the Military, Railway and Posts and Telegraphs Departments.
2. Vide Ch. XIV.

Civil Budget Estimates

Every budgeting authority, as in the provinces, is impressed at the start with the necessity of keeping to the prescribed dates for the submission of estimates and of exercising all possible care in framing them. Again, as in the provinces, estimates are framed in two parts, (*i*) standing and (*ii*) fresh charges. Estimates of 'standing charges' are submitted in duplicate on forms supplied by the Accountant General, Central Revenues, so as to reach him and the administrative department concerned by 15th October. Estimates of 'fresh charges' are also submitted to the administrative department by the same date, if they have not been submitted earlier in the year.

All items before being included in the budget must receive the sanction of the Finance Department, even new proposals relating to charged expenditure. It is left to the Finance Department to decide whether it should authorise the inclusion of any provision in the estimates for some of the proposals relating to charged expenditure without obtaining the Standing Finance Committee's approval.

The administrative department examines part (*i*) of the estimates and reports reduction in estimates of expenditure proposed by local officers direct to the Accountant General, Central Revenues, who is bound to incorporate such changes without question, as it is the administrative department that must justify estimates before the Public Accounts Committee of the legislature. It is open to the Accountant General, Central Revenues, to bring to the notice of that department, however, any facts bearing on the reductions. But, if the administrative department proposes additions, then he reports them to the Finance Department for sanction. Revenue estimates are prepared in the first place by the heads of the different tax collecting agencies e.g. the Collector of Customs and the Commissioner of Income-Tax. These departmental heads submit their estimates to the Accountant General concerned, who submits them to the Finance Department and the Central Board of Revenue.

The Finance Department does not criticise the expenditure portion of part (*i*) of the estimates. The Accountant General, Central Revenues, performs the scrutiny ; and only if the administrative department objects to the formal changes must it address the Finance Department. Work in connection with standing charges is completed by the middle of December.

Estimates of fluctuating items are sent by the local officers to the administrative department for scrutiny by 15th October. Explanations of all increased provisions and important variations, which are not justified by past actuals, must be given. The original estimates with the administrative department's recommendation are sent to the Finance Department by the middle of November. This department records its decision against each item. The Accountant General, Central Revenues, prepares the revised estimates of this part and calls attention to items of excess or inadequate budgeting in his budget notes.

The administrative department submits fresh charges to the Finance Department for sanction, and, when that is obtained, prepares a memorandum for the Standing Finance Committee, before whom new items are placed for approval. The memorandum before being submitted to the committee ordinarily has to be scrutinised and accepted by the Finance Department.

The best course, which is the usual manner of doing things, is for the subordinate officers to submit proposals for new expenditure throughout the year, in fact as soon as the necessity arises or comes to notice. Then also subordinate officers submit to other departments direct such of their proposals for new expenditure as require to be considered by the latter, so that all consideration, financial and administrative, is completed in sufficient time to enable the memorandum for the Finance Committee to reach the Finance Department by 15th November.

After items have been considered by the Finance Committee the Finance Department will communicate those which

are approved to the Accountant General, Central Revenues, for incorporation in his consolidated estimates.

As in the provinces revised estimates are also prepared for the current year and are expected to be a material factor in arriving at the ensuing year's budget estimates.

Consolidation and Review of Estimates

In the month of December a forecast of probable revenue and expenditure is made. It is based on the estimates of standing charges, which are ready by that time, and the seven-monthly report of the progress of the current year's budget.

The estimates are then consolidated and the statement of demands prepared. The estimates in individual budgets are consolidated, as in the provinces, in special 'compilation' forms by major and minor heads generally. Further details by sub-heads and detailed heads appear when necessary for purposes of budget notes and demand statements. The demand is also divided by circles[1] owing to the large area over which the grant may have to be spread.

The budget notes form a review of the estimates. The Accountant General, Central Revenues, prepares the budget notes on forms supplied by the Finance Department about the middle of December. A separate form is given for each major head of revenue and expenditure. Budget notes are based on eight months' actuals (nine for principal heads of revenue) and are due for submission to the Finance Department usually by 21st January. The explanation under each head is drawn up in two parts, one for the revised estimate of the current year and the other for the budget estimate of the ensuing year. The first part deals with a comparison between the revised estimate for the current year and actuals of the previous year, and also between revised and budget estimates of the current year ; the second part deals with a comparison between the revised estimates of the current year and the budget estimates for the next year. The

1. Into which the whole country is divided for administrative purposes.

explanations have to be complete, omitting no important or essential facts but referring to no petty details. These explanations[1] have to be as concise as is consistent with the object in view, viz., that the reasons for each estimate should be on record. The actuals in the budget notes are for the circle as a whole.

As only one edition is now resorted to in place of the old preliminary, first and second editions, the budget notes have to be as complete as possible in the first instance. After 11th February, the Finance Department is informed of alterations only of rupees one lakh or more under any individual major head. Estimates are also reviewed with reference to nine months actuals. Corrections are incorporated by the Finance Department at its discretion.

STANDING FINANCE COMMITTEE

This is a committee of the Legislative Assembly which scrutinises fresh charges before they are incorporated in the budget. It has ten elected members and one nominated member who is also the chairman. The Finance Member may also refer any new proposals for non-voted civil expenditure for the purpose of getting advice thereon. He is not at all bound by any advice or decision of the committee, yet it is unlikely that government will go to the legislature when a proposal has been turned down by the committee. Another of the committee's functions is to scrutinise details of various estimates placed before the assembly. This function, akin to that of the Estimates Committee of the House of Commons, is however not exercised.

1. For explanation it is necessary to know the individual budgets that contributed to the variations; so for this purpose booked actuals are analysed month by month, and by budgets and accounts. It is then an easy matter to correct explanations by a reference to these notes. For the purpose of analysis of actuals (either for budget notes or six-monthly estimates) there is a classified abstract. The actuals recorded in the detail books under each major and minor head for receipts and under minor heads only for expenditure are analysed month by month for comparison with the corresponding actuals of the previous year. Reasons for large variations compared with the proportionate estimate and previous years figures are written on the reverse.

Budget Demand Statements

Expenditure estimates are put in the form of demands for grants when submitted for legislative sanction. Hence only votable items go to make up the demand statements. These statements[1] have three parts : (*i*) statement of the total amount required, (*ii*) details by sub-heads under which the grant will be accounted for by the department concerned (where a grant has to be accounted for in different circles this part is divided into IIA and IIB, the latter showing the distribution of the grant by circles of account), and (*iii*) detailed estimates under each sub-head divided into items. The preparation[2] of these statements from materials obtained

1. Vide Appendix XIII. The statements form the initial basis from which the budget work starts and gets consolidated.

2. Some of the instructions for the preparation of Demand Statements may be noted: (*i*) Details of each demand are grouped under sub-heads. Sub-heads appearing in the Book of Demands for the year are the sub-heads prescribed by the Finance Department for the year. Any changes in sub-heads must receive its formal approval. Sub-heads inoperative for three years are deleted and require formal sanction for renewal. (*ii*) There are four columns giving last year's actuals, budget and revised figures for the current year, and budget estimates for the next year. (*iii*) Details of strength and rates of pay are given only for posts on Rs. 750 per mensem and above. (*iv*) There are two columns for strength, one for the number at the time of preparing the current budget and the other the next year's budget. (*v*) New items and fresh recurring charges accepted by the Finance Committee during the current year for which a supplementary grant has not been obtained, and which are appearing for the first time, are printed in thick type. (*vi*) Footnotes very briefly describing the necessity for new proposals of expenditure and all large variations in estimates of the coming year as compared with the current year are given. (*vii*) Charged items are shown in italics. (*viii*) A reserve, if any, is shown as a distinct sub-head, a note in the estimate being made to distinguish a provision for a specific scheme from a lump sum allotted for unseen contingencies and it is also indicated at whose disposal the reserve is placed. (*ix*) "Pay of Officers" is shown separately from "Pay of Establishment." (*x*) Distribution of totals is such as they agree with totals of details and totals of charged and voted items. Totals in the Abstracts in Part II agree sub-head by sub-head with totals of corresponding sub-heads in Part III. All figures are in thousands. (*xi*) Combined establishments, the charges of which are distributed between the centre and the provinces or between two central departments are shown in full in one place and portions recoverable are shown as "Establishment charges recovered from government, department, etc." (*xii*) Statements are accompanied by complete lists showing (*a*) new items, and (*b*) all fresh recurring items accepted by the Finance Committee during the year appearing for the first time.

in individual budget estimates is taken up by the Accountant General, Central Revenues, before preparation of the budget notes. Skeleton forms are supplied by the Finance Department. The statement of demands gives explanations of all important variations of the next year's estimates as compared with the revised and budget estimates for the current year and the actual figures for the year that is completed, and of special items of expenditure included in it. The Finance Department invites the assistance of the administrative departments in drafting explanations and endeavours to show them their respective portions, in the final form, a week before the demands are presented to the legislature.

Demand statements are then submitted to the Finance Department along with the budget notes. In fact the budget staff of the office of the Accountant General, Central Revenues, is deputed[1] to work in the Finance Department, a few being deputed to the Crown Finance Department, from the last week of January to the first week of March. Here demand statements are completed and agreed with budget notes, and figures are rounded.

Conclusion

The budget is considered by the government collectively in the second week of January and their decisions are noted by the Finance Department.

The estimates at the centre are in four books : the Civil Budget Estimates and the Estimates of the Defence Services, the Railways and the Posts and Telegraphs. The demands are put together in one compilation called the 'Demands for Grants'. There is also a very useful publication of the Central Government called *The Budget*. In this are given the speeches introducing the general and the railway

1. For the extra work which devolves upon the Finance Department during the budget season, men have to be drafted from outside. The most convenient arrangement is to get a loan of several assistants from the corresponding accounting organisation, e.g. from the Accountant General, Central Revenues, for the Central Finance Department and the Crown Finance Department, and from the provincial Accountant General for the provincial Finance Department.

budgets to the two houses of the legislature, convenient summaries and tables and explanatory memoranda on them. At present this is the only publication that is short and handy enough for perusal by the members of the legislature and by the public who have neither the time nor the interest to go into details.

CHAPTER VI

THE BUDGET AND THE LEGISLATURE

WHEN the estimates are finally decided upon by the executive, they are printed and then presented to the legislature. It is a constitutional privilege of both houses of the legislature to receive the annual and, if required, the supplementary estimates. The importance attached to the budget is evident from the fact that a special session of the legislature is convened for the purpose of discussing and voting it.

As was pointed out in chapter III the executives in India, both at the centre and in the provinces, have a large share in determining the budget. Their powers are midway between full authorisation of the budget as in the autocratic countries and limited determination as in the democratic countries. To recapitulate briefly, first, not the whole budget is subject to the vote of the legislatures ; in fact at the centre about four-fifths and in the provinces about one-sixth of the expenditure is non-votable. Besides the Governor General and the Governors have the power to include in the budget sums which are necessary for the discharge of their special responsibilities. Then again, with regard to matters within the vote of the legislatures, there is the constitutional provision, very necessary to prevent abuses, that the executive must recommend every financial measure and that a legislative chamber may assent to, refuse or reduce but never increase such a measure. In addition the Governor General possesses the power of certification ; and the Governors the power of dissolution, which, unless the matters under discussion are serious, is sufficient to compel party members to fall into line with ministerial wishes.

There are three well-defined stages through which the budget passes before it is fully authorised for being put into execution. The first is the submission of the budget

to the legislature which, as was said in a previous chapter, ought to be dramatic enough to rouse public enthusiasm on and stimulate public discussion of the budget. The second is the discussion and voting of the demands for grants, followed by a final and formal authorisation of grants and appropriations for the year by the Governor General or Governor in a schedule of authenticated expenditure. This stage refers to the sanctioning of the expenditure side of the budget. Lastly comes the discussion and voting of finance bills or the sanctioning of the revenue side of the budget.

Submission of the Budget

The budget at the centre is introduced in the Assembly by the Finance Member and in the Council of State by the Financial Secretary ; in the provinces by the Finance Minister in both houses. Budgets in India are usually presented to the legislature during the month of February.

The budget speech of the Finance Member is carefully prepared, for it outlines the financial policy of the government. After a short introduction, in which he tries to put the house in good humour towards him, the Finance Member plunges into the subject proper and begins a review of the year that is completed. The Audit Report has been with the members for some time past and so he does not tarry long ; with a few remarks he brings his review of that year to a close.

The next topic is a review, as far as current actuals and revised estimates will allow, of the budget of the current year. The Finance Member gives the revised estimates of income as well as of expenditure and the results expected. The increases or decreases in the chief revenue heads as customs, excise and income-tax and in the large items of expenditure as defence services, civil estimates and interest charges are accounted for and explained. The results of the Posts and Telegraphs Department which is worked as a quasi-commercial department are always given. The net results of income and expenditure are then given, with remarks upon the same.

The third topic—more important than the last—is the budget for the next year. The revenue expected under different heads and the expenditure likely to be incurred on defence, interest charges and other large items are analysed, and the position at the end of the year struck. If a deficit is expected members of the house know that changes in taxation are likely. If a surplus, everyone is anxious to know whether any reduction in taxation will be considered.

Then the Finance Member digresses on the ways and means position for the current year and the expected requirements of the following year. Here he outlines the borrowing or repayment or conversion policy with regard to loans and existing securities, deals briefly with sterling liabilities, gives the position, current and expected, of post office cash certificates and savings bank deposits, and lastly announces the government policy as regards treasury bills, besides giving the outstanding amount to date.

Now comes the most interesting item, for which the members have been waiting all the time—proposals for the next year regarding increases or decreases in taxation. A Finance Member who can reduce taxation is cheered lustily. If, however there is an increase opposition usually begins to flare in the faces of members. Having made these important announcements the Finance Member quickly draws his speech to a close. Soon after the speech, he introduces the Finance Bill with all the necessary schedules.

The Press takes no time to relay the budget speech and within twenty-four hours public discussion centres round it.

Together with the budget speech the members get summary budget statements of revenue and expenditure charged to revenue, of receipts and disbursements of the Central Government, followed by (*a*) a statement of revenue, (*b*) a statement of expenditure charged to revenue, and (*c*) a statement of receipts and disbursements. The

second set of information is more detailed than the first. There is also a long explanatory memorandum on revenue and expenditure estimates, interest payments, ways and means estimates, and other items of importance. Both sets and the memorandum are included in a publication called 'The Budget'. More detailed information is found in the Book of Estimates issued in four parts and in the compilation called the 'Demands for Grants', of which we have spoken in the previous chapter.

The speech of the Financial Secretary in the Council of State follows the same lines as that of the Finance Member; only it is brief and usually more statistical. The Financial Secretary tries to supplement the information given in the Assembly. Often the same information is put in a different way, so as to give another picture of the same facts—a good way of bringing home to the public the full import of any point.

The railway budget is also introduced sometime in February and before the general budget by the Commerce Member[1] in the Assembly and by the Chief Commissioner of the Railway Board in the Council of State. Their speeches *mutatis mutandis* are similar to the two speeches given above, special stress being laid on capital expenditure. In the federation that is contemplated the railway authorities are given autonomy and the railway budget will then not be subject to legislative control. The budget speeches, with the budget as introduced and as adopted, together with the summary statements and explanatory memoranda, are included in 'The Budget', a publication referred to above.

In the provinces the Finance Minister's budget speech is delivered in the Legislative Assembly and the presentation in the Legislative Council is a very formal affair. The form of the speech follows the usual pattern—a review of the actual results of the previous year, of the revised estimates of the current year, the budget estimates of the

1. Since the creation of the War Transport Department by the member in charge of it.

ensuing year, the ways and means programme of the current and the next year, new schemes or policies to be initiated in the next year and lastly taxation proposals to balance the budget.

Discussion and Voting of Grants

The procedure in the provinces and at the centre for the discussion and voting of grants is essentially the same. A week after the budget is introduced,—no discussion takes place on the day on which it is presented—the legislature initiates what is called the general discussion on the estimates, which lasts from two to four days. The Governor General and the Governor have the power to frame rules for the chambers on certain matters mentioned in the Act, one of which is to see that financial business is completed in time.

The general discussion is intended to provide for criticism of the annual financial statement as a whole, not specific estimates which will come up for discussion when the demands for grants are introduced nor specific revenue measures which will be considered when the finance bill is taken up. The general discussion may range over any subject (excepting certain items[1]), that has any relation to the estimates ; it ought, however, to centre round the general financial plan of the government for the following year, and the general taxation and expenditure policies. It enables members to discuss revenue estimates, non-votable expenditure and the ways and means programme of the government. What happens often is that special points are singled out for a political attack by a party or individual and hammered at, so that the general discussion is a waste of time, specially if that item will come up for discussion later. The discussion also serves as a pointer to government, giving it an idea as to how the budget proposals will be dealt with in subsequent stages. The

1. Items which refer to the salaries of the Governor General and Governors and expenditure relating to their respective offices and sums payable from central revenues on account of the expenses of the Crown Representative and his department.

Finance Minister or Member has the right of reply ; and to win over the house usually promises to see that hard cases resulting from taxation will secure relief or that particular expenditure will be carefully considered or else makes a vigorous plea for the particular policies initiated by the government.

In India the general discussion over, the demands for grants are taken up. Demands refer only to votable items. Items charged on the revenues may only be debated, save regarding matters mentioned above, but not voted upon. Even the debate on them is restricted to the general discussion stage, as the schedule of authenticated expenditure which includes these appropriations can neither be discussed nor voted.

Demands are at present only presented to the legislative assemblies, the upper houses having no power to deal with them at all. In the federation to come, the Council of State will have almost co-ordinate financial powers with the lower house, which alone, however, will have the right to initiate money measures.

Demands for grants[1] are made in respect of expenditure not charged on the revenues. No definition of the term expenditure has been given either in the Act or the Legislative Rules. In practice, it has been taken to cover (*a*) what is technically called 'expenditure' in the public accounts, including capital expenditure incurred from borrowed funds and (*b*) certain disbursements under the debt head 'Loans and Advances' but not under other debt heads. It does not cover disbursements under deposit and remittance heads.

Every demand for a grant is introduced by the member or minister in charge in the following words :

> "*That a sum not exceeding Rs.......be granted to the (Governor General or Governor) to defray the charge which will come in the course of payment during the year ending March,* 19...., *in respect of (subject of demand)*".

1. Vide Ch. V, *Budget Demand Statements* and Appendix XIII.

The practice of executive recommendation as was seen above preserves budgetary balance by preventing irresponsible action on the part of individual members which would only result in extravagance or wasteful expenditure. Such a practice also helps individual members, as otherwise they are sure to have importunate demands made on them by their constituents. If initiative is granted to members of the legislature, then the most active and the most noisy and not the most deserving will benefit by its use.

In submitting the demand the minister reviews the work done by the department during the year and states the policy for the current year. The speech is almost always political, seldom financial.

There is clearly no chance to go through all the demands as the time available is very limited—from eight to twelve days generally. Again not more than two days may be taken up for each demand. Hence the Opposition choose the demands they want to debate and government agree to have them discussed more fully than others. At the end of the time allotted for a demand every question is put to the vote and the demand disposed of. On the last day all matters relating to demands not yet disposed of are put to the vote, whether debated or not. Hence every year a large portion of the demands goes undiscussed.

The Assembly may reduce or reject a demand but may not increase it. If the legislature desires an increase it must pass a resolution recommending such action to the Governor or Governor General. But such resolutions do not form part of the budget discussion and procedure, and therefore must be moved on separate days allotted for the purpose.

Reductions in demands are made to effect economy or to censure the government or to elicit information on particular points. A demand is reduced by a token cut of a rupee if the object is to censure the government, and of a hundred rupees if it is to discuss the demand merely, otherwise it is reduced to the required amount or rejected

altogether. Token cuts raise political rather than financial issues; and are used as a means to discuss the particular policy connected with the demands under consideration. If the government's answer is unsatisfactory, the cut is pressed to a division. Otherwise, and very generally, it is withdrawn. On the question of reduction practice varies. In some provinces a reduction only in the total amount is permitted; in other provinces reduction on a particular item or items is allowed.

Schedule of Authenticated Expenditure

When the demands for grants have been passed by the Legislative Assembly they are sent to the Governor General or Governor who incorporates them into what is called an 'authenticated schedule' in which he may restore demands to their original figures, if he considers such restoration necessary to the discharge of his special responsibilities. The authenticated schedule of authorised expenditure, therefore, includes (*i*) grants made by the chamber or chambers, (*ii*) sums required to meet expenditure charged on the revenues[1] which sums cannot exceed the original estimates, and (*iii*) grants restored as being necessary for the discharge of special responsibilities. Amounts in the second category are technically called 'appropriations' to distinguish them from grants.

1. Expenditure charged on provincial revenues is as follows :—
   (*a*) the salary and allowances of the Governor and other expenditure relating to his office for which provision is required to be made by an Order in Council;
   (*b*) debt charges for which the Province is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;
   (*c*) the salaries and allowances of ministers, and of the advocate general;
   (*d*) expenditure in respect of the salaries and allowances of judges of any High Court;
   (*e*) expenditure connected with the administration of any areas which are for the time being excluded areas;
   (*f*) any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal;
   (*g*) any other expenditure declared by this Act or any Act of the

This authenticated schedule is laid before both chambers but is not open to discussion. Subject to the sanction of supplementary grants, this schedule provides the sole legal authority for expenditure from revenues, and hence unless an item is included in this schedule no sum can legally be spent on it.

In India there is no Appropriation Act as in most countries. The authenticated schedule of authorised expenditure takes the place of such an Act. A point to be noted is that the schedule is completed and published before the commencement of the financial year. In England

Provincial Legislature to be so charged.—Vide S. 78 (3).

Expenditure charged on the central revenues is as follows :—

(*a*) The salary and allowances of the Governor General and other expenditure relating to his office for which provision is required to be made by an Order in Council ;

(*b*) debt charges for which the Federation is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;

(*c*) the salaries and allowances of ministers, of counsellors, of the financial adviser, of the advocate general, of chief commissioners, and of the staff of the financial adviser;

(*d*) the salaries, allowances, and pensions payable to or in respect of judges of the Federal Court, and the pensions payable to or in respect of judges of any High Court.

(*e*) expenditure for the purpose of the discharge by the Governor General of his functions with respect to defence and ecclesiastical affairs, his functions with respect to external affairs in so far as he is by or under this Act required in the exercise thereof to act in his discretion, his functions in or in relation to tribal areas and his functions in relation to the administration of any territory in the direction and control of which he is under this Act required to act in his discretion ; provided that the sum so charged in any year in respect of expenditure on ecclesiastical affairs shall not exceed forty-two lakhs of rupees, exclusive of pension charges ;

(*f*) the sums payable to His Majesty under this Act out of the revenues of the Federation in respect of the expenses incurred in discharging the functions of the Crown in its relations with Indian States ;

(*g*) any grants for purposes connected with the administration of any areas in a Province which are for the time being excluded areas ;

(*h*) any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal ;

(*i*) any other expenditure declared by this Act or any Act of the Federal Legislature to be so charged—Vide S. 33 (3).

the Appropriation Act is passed sometime in August, when the new financial year is well under way.

Supplementary and Token Demands

If during the course of the year expenditure under any grant has exceeded the amount specified in the schedule, then steps are taken by the executive to secure supplementary grants. Supplementary grants, the procedure for which is the same as for the annual demands, are also taken up during the budget session and must be passed before the end of the financial year.

But a supplementary demand is sometimes moved not to secure an extra provision of funds for expenditure but to bring all items, which are outside the scope of a demand or which have special importance, to the notice of the legislature and obtain its formal approval. In such cases the demand is moved for a nominal amount, say a rupee, in order to initiate discussion on it ; and in a separate statement it is shown how the balance will be met. Such a demand is called a token demand and is a common feature of budgetary practice in India.

Voting of Taxes

The finance bill is introduced after the budget speech. The bill has two features : it includes all the taxation proposals of government for the year and contains taxes, if any, which must be voted every year. The first feature facilitates discussion, enables members to focus their attention on the financial position of the country and saves time as otherwise three, four or five separate bills will need to be introduced. The second feature forces the executive to summon the legislature at least once a year, as otherwise there will not be sufficient income to defray expenditure. It is also one way of symbolising the legislature's control of the purse. However, in India, only at the centre, does this second practice prevail, for the salt tax, postage and income-tax rates are voted annually.

The finance bill does not include the whole scheme for a particular tax. That is usually settled by a separate bill ; all that the finance bill seeks to do is to vary the rates so as to balance expenditure. This method also gives sufficient elasticity to the tax structure of the country.

Now the finance bill, like all other bills, takes time to be passed, for there are the usual stages to be gone through. But in the interval between the introduction and the passing of the bill, when changes in customs or excise duties are proposed, the government may stand to lose by the clearance of goods through the customs or the removal of goods from bond. Hence the Provisional Collection of Taxes Act was passed in 1913 for the centre to allow the executive to collect taxes at the new provisional rates during the interval. That is to say, the Finance Act can be given retrospective effect for a period of 60 days. If the Act is not passed within this time, or is passed only in a modified form, the excess duty collected has to be refunded. With the development of indirect taxation in the provinces such Acts may become necessary for them. Bombay already has such an Act. The procedure for a finance bill is the same as that for any other bill and therefore need not be described here.

Legislative Committees

It is usual for the legislature to examine the estimates first through one of its committees. In India, however, the legislative committee system is not developed, so far as budgetary procedure is concerned. There is no Estimates Committee as in England or an Appropriations Committee as in the U.S.A. At the centre in India there is a Standing Finance Committee of the central legislature which exists for the purpose of examining new items and demands for supplementary grants and for scrutinising details of various estimates which are placed before the Assembly for their vote. Ordinarily, however, the Finance Member refers to the committee any new proposals for non-voted civil expenditure as well with the object of

obtaining its advice thereon. Defence expenditure however is excluded.

To scrutinise estimates in detail requires intelligence as well as special and technical knowledge ; and hence the need to have men of high calibre on the committee. The Finance Committee can question the propriety of expenditure, call for explanations, and suggest economies. Like the Estimates Committee in England, the Finance Committee is a purely advisory body, whose recommendations government may accept or reject. The final responsibility for all expenditure rests with the government. In the provinces the Finance Committees are purely advisory and give their advice on such matters as the Finance Minister may choose to place before them. Suggestions made to introduce an Estimates Committee in India are discussed at length in chapter X.

There is no committee of the whole house for supply and ways and means as in the House of Commons. The whole house is presented with the budget and demands for grants. When these demands are voted, the executive gets its appropriations. There is also no formality of gathering up all the demands into an Appropriation Act to be considered again by the house. New taxation or changes in taxation are embodied in the finance bill which is introduced immediately after the budget speech in the lower house.

Perhaps for simplicity and directness the procedure in the Indian legislatures is one of the best devised. There is no laborious procedure as in England, where it has come down as an interesting historical relic. As the chambers may not increase demands or taxes, they are free from the unseemly and corrupt practices of 'pork barrel' and 'log rolling' seen wherever the legislatures have the power to frame, if they so desire, their own estimates.

The Public Accounts Committee is another of the committees of the legislature, and both in the provinces and at the centre has done good work. The constitution

and functions of this committee are dealt with in chapter X.

The part played by the legislature in financial control and in promoting public economy is considered at length in chapter X. Hence all criticism on the discussion and voting of the budget has been left over to be dealt with in that chapter.

CHAPTER VII

THE BUDGET IN EXECUTION

WHEN the legislature has voted the demands for grants, and the Governor General or the Governor has included them together with appropriations for expenditure charged on the revenues in a schedule of authenticated expenditure, and further when the legislature has sanctioned the necessary Finance Act, then the executive has the field clear to commence its operations from the start of the new financial year. In India both revenue and expenditure are very advantageously considered together, and measures pertaining to both authorised before being carried out.

The operations of the executive will be considered under two main heads—collection of revenue and expenditure ; and then by way of conclusion the balancing of the two at the end of the financial year, to find out if the budgetary balance has been successfully maintained.

For the manifold tasks the executive has to perform in connection with the budget it is assisted by a large administrative organisation which is highly centralised. The final authority in all financial matters is the executive ; but it is the special function of the Finance Department to look after expenditure and revenue generally, and all the financial work of the government. Such centralisation, we have seen in a previous chapter, is a significant factor for the exercise of financial control.

A. Collection of Revenue

Money has to be got in before it is spent. Hence the importance of an efficient collection of revenue. Though an unpleasant task it is essential, and therefore must be carried out with much tact and adroitness. Therefore also, the administrative machinery must be adequate for the purpose and function on a sound system. The recent changes

in the Income-Tax Department have shown that efficient administration means more revenue.

Money collected goes into the public account,[1] not even expenses of the department concerned being taken in reduction of it, as all estimates in India are gross estimates. Revenue is sent to the treasury or the Bank[2] as soon as possible after collection, and then brought into the treasury accounts.

Collection is in most countries entrusted to the Finance Department, on the principle that the agency which knows the difficulties of gathering in revenue is best fitted to enforce economy in the other departments. In India, it was pointed out in chapter IV, the system at the centre differs from that in the provinces. At the centre the different revenue collecting agencies are closely associated with the Finance Department and under its direct supervision. In the provinces separate Revenue Departments are entrusted with the revenue functions. There is no doubt some control is exercised by the Finance Department particularly where questions of relinquishing revenue are concerned ; but the Revenue Department is not directly subordinate to the Finance Department.

The collection of revenue at the centre is the function of the Central Board of Revenue, just as in England there is the Board of Inland Revenue for direct taxes and the Board of Customs and Excise. The Central Board of Revenue forms part of the Finance Department and the two members of the Board enjoy the status of Joint Secretaries to Government. We might consider the Board as a sub-division of the Finance Department entrusted with the task of supervising and settling all problems connected with the collection of revenue.

Central Board of Revenue

The Board consists of two members, a Secretary and an Assistant Secretary, and has a large and qualified staff

1. Vide Ch. IX, *General Principles and Methods of Accounts.*
2. i.e. The Reserve Bank of India or its agent, The Imperial Bank of India. Vide Ch. XII, *Banking.*

for the tasks imposed on it. It deals with customs, central excise, salt and income-tax and for specific problems may have advisers to assist it, e.g. the Income-Tax Advisers' Department, which was specially constituted to deal with problems arising from the recent amendments to the Income-Tax Act. The Board acts in a two-fold capacity : it is the chief revenue authority of the Government of India, it is also an appellate tribunal in revenue matters. The Board was constituted to centralise the administration of the various revenue departments of the government, to effect economy, and most of all to enable the Finance Department to be in close touch with the collection of revenue, the fluctuations in receipts and their causes, and the probable trends of revenue. The Chancellor of the Exchequer in England has easy access to financial information, because he is in close touch with the chairmen of the Boards of Inland Revenue and of Customs and Excise. This contact gives him the opportunity to know the defects in revenue laws or in the administration of the revenue departments and to exercise his authority directly, promptly and effectively. In such a large country as India there is even more need for a central organisation which will furnish such information to the Finance Member. The Central Board of Revenue satisfies this need.

However the Board does not directly collect the revenue ; that is left to separate organisations. It sometimes happens that the same organisation may collect two or more taxes, e.g. there is one Collector of Excise and Salt for N. W. India. Such an arrangement promotes economy. We shall now briefly describe the organisation and methods for the collection of revenue.

CUSTOMS

A very large part of our revenue is derived from customs duties. Till the adoption of the policy of discriminating protection, customs duties in India were for revenue purposes only. The duties were, therefore, low. Now with the introduction of a protective tariff, the collection of

customs duties has become more intricate and difficult, and preventive work has also increased.

There are customs duties for goods brought both by sea and by land. So there are two Acts governing the imposition of customs duties, viz., the Sea Customs Act and the Land Customs Act. There are customs houses at sea ports, and at the frontiers between British India and the Indian States that have direct access to the sea and between British and foreign territories, whether of the French or Portuguese. Hence we have the Viramgam customs cordon to prevent smuggling from the Kathiawar States and a customs barrier at Castle Rock to prevent smuggling from Goa. Other land customs houses are not very important.

The largest customs organisations are at Bombay and Calcutta. At the head of the Bombay Customs Department is the Collector of Customs who is directly responsible to the Central Board of Revenue. He has a number of Assistant Collectors to assist him in the different branches of work. Under the Assistant Collectors come the Appraisers and Preventive Officers. The examination of goods is carried out by the examiners and inspectors. The preventive staff is engaged in the prevention of smuggling ; it has no concern with valuation or assessment or collection. It is the Appraiser who values the goods and assesses the rate that is to be applied. The collection is made by the Collector's Cash Department. Unless the importer (in the case of jute the exporter) pays the charge that is raised against him, he is not allowed to take away the goods. The importer, however, may not choose to take away the goods immediately. The customs authorities provide warehouses for storing these goods and the duties are payable before delivery of the goods is taken.

Tariff schedules are now very detailed and so trained men are required as Appraisers. The importer may appeal against the valuation arrived at by the Appraiser to the Assistant Collector and then the Collector. If he still feels aggrieved at the decision of the customs authorities he has the right to appeal to the Central Board of Revenue whose

decision is final. Courts of law will inquire into cases only where a point of law is involved.

INCOME-TAX

The next most important source of revenue is the income-tax in which is included corporation tax, super tax and excess profits duty. The income-tax was put on a permanent basis by the Income-Tax Act of 1922 ; recently it was modified extensively to put the administration on a better footing. The Central Board of Revenue is the authority empowered to frame rules under that Act. Its task is, therefore, purely administrative without at all being judicial. It is the highest authority in the administrative hierarchy and puts its advice at the disposal of the other officers connected with the assessment and collection of the tax. There is now an Income-Tax Advisers' Department to deal with and advise the Central Board of Revenue on all matters pertaining to income-tax. The whole of India, for income-tax purposes, is divided into circles, each of them being in charge of a Commissioner. The Central Government may appoint a special Commissioner to deal with specific cases or a special type of cases, to the exclusion of the Commissioner of the circle.

Next after the Commissioner come Appellate Assistant Commissioners and Inspecting Assistant Commissioners, the former under the direct control of the Central Board of Revenue and the latter under the Commissioner. Neither the Commissioner nor the Board may interfere with the decisions of the Assistant Appellate Commissioners, who are thus independent of the purely administrative side of the department. Inspecting Assistant Commissioners are responsible for supervising the work of the Income-Tax Officers who are the officers recognised by the Act for the purposes of assessment.

A general notice in the press is given to all tax-payers at the commencement of the financial year to submit their returns of income. Though no special notice is required to be given, yet all those assessees who are already on the

office registers still get an individual notice. After the return has been submitted the Income-Tax Officer in due course calls the assessee for an interview at which he is expected to produce documents to support the statements made in his return. When hearing is over—it may sometimes require more than one interview—the assessment is made. If the assessee agrees with it, he has only to pay up the charge raised against him and the matter is over. If the assessee is not satisfied he may appeal within 30 days of the notice of demand to the Appellate Assistant Commissioner ; if even this assessment does not meet with his approval, he may appeal to the Appellate Tribunal. Reference to a high court is permitted only on a point of law, not of fact.

The Appellate Tribunal consists of an equal number of judges and accountants. It hears and determines all appeals from the decisions of the Appellate Assistant Commissioners. The Commissioner is now purely an administrative officer and it is expected that income-tax administration will profit by this modification. One important point ought to be borne in mind. The Commissioner may compel an Income-Tax Officer to appeal against the Appellate Assistant Commissioner to the Appellate Tribunal. This arrangement, it is hoped, will serve to improve the impartiality of the judgments of the Appellate Assistant Commissioners. The Commissioner may also revise the assessment by the Income-Tax Officer in favour of the assessee.

With regard to certain forms of income, the Act provides for deduction of income-tax at the source ; e.g. salaries, interest payments, dividends, etc. In certain cases the highest rate is applied, and so persons whose income is such that a lower rate only is applicable, may apply for refund. Refunds are usually settled when the Income-Tax Officer values the income and determines the rate applicable to the assessee.

The staff of the Income-Tax Officer consists of examiners, accountants, inspectors and clerical assistants. The examiners are entrusted with the task of going into the accounts of assessees and reporting thereon, and the inspectors with detecting those who attempt to evade the payment of

income-tax, either altogether or in part. The accountants keep the accounts of the office and the clerks perform general duties. It is obvious that even clerical assistants ought to be qualified persons, at least with a sufficient working knowledge of accounts and book-keeping.

Income-Tax Officers are appointed by the Commissioner. In Bombay the municipal divisions of the city into wards are followed in distributing work to the Income-Tax Officers. In some wards where the number of assessees or the nature of work demands, two or more Income-Tax or Assistant Income-Tax Officers may be appointed.

The Income-Tax Act determines the powers of the income-tax organisation and gives the general outlines regarding collection, assessment, appeals, penalties for infringements of the Act, refunds, etc. But the rates are sanctioned annually by the Finance Act of the legislature, and the amount of tax due is calculated not on current income, but on actual income during the year just completed.

The Central Board of Revenue supervises the work of the Commissioners whether of circles or on special work. The Financial Secretary is kept in close touch with revenue collections through the two members of the Central Board of Revenue. This Board examines the working of the Act, corrects flaws as they are detected, frames rules and regulations according to the powers given by the Income-Tax Act and proposes amendments to it as need arises.

Administration is an important aspect of taxation. Sir James Grigg, the Finance Member who piloted the amendments to the Income-Tax Act through the Assembly, said that he expected an improvement in the revenue to the tune of two crores per annum owing to administrative changes only. The amended Act of 1938 is expected to reduce evasions in a number of ways.

Excise and Salt

Here again the highest administrative authority is the Central Board of Revenue. Often the collection of salt and central excise is vested in the same agency. There are

five chief agencies throughout India : (*i*) The Collector of Salt and Excise, North Western India, (*ii*) The Collector of Salt and Excise, North Eastern India, (*iii*) The Bombay Salt Department, (*iv*) The Madras Salt Department, and (*v*) The Superintendent of Salt Revenue, Sind.

As in the Customs Department, each Collector has his Assistant Collectors, under whom come the assessors and inspectors. Both the tax on salt and excise are collected at the source. Before the salt leaves the pans or the match-boxes the factory, the duty has to be paid. As government manufactures most of the salt itself, and further as salt manufacture in private ownership is concentrated in a few hands, there is not much difficulty in collecting the duties. For excise, too, the collection is not very difficult specially as almost all the production of excisable articles is in large factories. An easy check on the payment of duty is through the use of banderoles. Manufacturers purchase these banderoles and seal each match-box, for instance, with one such banderole. The chief task in the administration of salt and excise duties is that of prevention.

As is to be expected government makes use as far as possible of the existing tax collecting agencies whenever it imposes a fresh tax. For example, the new Excess Profits Duty is administered by the Income-Tax Department, for it can most economically do so. There are some taxes and duties which are imposed not so much for their revenue yielding properties, but to discourage or control the use of a particular article, e.g. licence fees collected under the Arms Licence Act, which is administered by the Provincial Governments on behalf of the Central Government.

The Revenue Department

Collection of revenue in the provinces is the task of the Revenue Department over which the Finance Department has limited control, being mainly in connection with changes in rates or remissions of revenue. Through periodical reports, however, this department is kept informed of the progress of revenue collection.

The Revenue Department in Bombay has for its permanent head the Revenue Secretary who is assisted by an Under-Secretary and an Assistant Secretary, the latter being also responsible for the efficient administration of the office. The department is divided into seven sections dealing with land revenue and property tax, lands, forests, excise, stamps, registration and entertainment tax, estates, and co-operation and rural development. Each section is in charge of a Superintendent assisted by a small staff. The Revenue Department itself collects no revenue—that is done by special organisations or through other agencies such as municipalities. It is a supervisory body having general control over all the other collecting agencies.

The principal provincial taxes are land revenue, excise, stamps and registration, motor vehicles taxes, electricity duty, urban immovable property tax and sales tax.

Land Revenue

The principal source of provincial revenue is land revenue. The chief function of the Revenue Department is the administration of this tax, for which the whole system of district and divisional administration of a province came into being. The Collector of a district is essentially a revenue official with executive and even magisterial duties tacked on to him. A district is further divided into talukas and every Talukdar is a subordinate revenue official in charge of a number of villages. A number of districts forms the division which is placed under a Commissioner.

The land revenue system differs from province to province. Under the permanent settlement the valuation has been fixed once and for all, under the temporary settlement valuations are undertaken periodically. The basis of valuations also varies from province to province. In Bombay the subjective factor has free play, in the Central Provinces great attention is paid to the rent paying capacity of each cultivator, in Madras the amount of tax to be paid is calculated on the net produce and the general economic conditions of the area, in the Punjab and the U.P. the assessments are

based on rents actually paid or for which lands are likely to be let, if the owners cultivate the lands themselves.

In Bombay land revenue is determined not as a standard proportion of the net produce of land but only on general considerations. The classification of fields of 1868 is still in use today, even though hopelessly out of date. The villages are grouped into homogeneous circles and the Collector or Mamlatdar determines the total demand for the group by reference to the revenue history of the tract in question or to what the group ought to pay on the basis of general considerations.[1] When the amount is determined for the group, it is then distributed over the individual villages which form the group. Thus it is that the Bombay system is worked from aggregate to detail. In distributing the tax burden a maximum rate is fixed for first class land and other lands pay according to the different values in the scale.

In the Central Provinces, on the other hand, the system works from detail to aggregate. The Collector prepares a forecast of probable income from the tract on the basis of outturn, prices, land values and rental history. This forecast is merely for general guidance ; for the settlement officer is required to pay great attention to the rent paying capacity of each cultivator. Soils are classified according to what are termed soil units. This method is more objective and has, so it is claimed, considerable accuracy for practical comparative purposes. After this a standard rate for the group is fixed, then a village rate for every village and still more a different rate for every individual in the village.

The Collector of the district hears revenue appeals against the decisions of the Mamlatdars. A further appeal lies to the Commissioner of a division. There has been an oft-repeated suggestion of constituting a Revenue Board for every province in place of the present Commissioners of

1. For example by taking into account the general state of communications, the impediments to transit, the various classes of cultivation, the condition of the population with regard to castes, general property, amount of agricultural stock, health, education, the statistics of land revenue and occupation, the trend of prices past, present and prospective, and several other factors.

divisions. In Madras the commissionerships of divisions have been abolished and instead a Board of Revenue has been established. It is desirable that the Finance Department should exercise control over the collection of revenue. The system of making use of a Board of Revenue within the Finance Department is a device that still remains to be introduced.

Excise

Though excise in Bombay is controlled by the Revenue Department there is a special organisation for the purpose. Liquor is distilled at government distilleries and, therefore, most of the work is of a preventive kind. Liquor shops can be opened only with a licence. At the head of the administration is the Commissioner of Excise. The accounts of the department are kept by a Chief Accounts Officer. The district administration is also entrusted with collection and preventive duties. There has obviously to be a large inspection and preventive staff. With the introduction of 'prohibition' while the revenue from excise has fallen, the expenditure on preventive staff has very considerably increased. Part of the preventive work is done by the police.

Other Taxes and Duties

In Bombay there is the Superintendent of Stamps in charge of the General Stamp Office, located in the Town Hall. In the chief cities there are stamp offices. In the districts the treasuries are entrusted with this task also. Judicial stamps are available from the stamp offices attached to the different courts.

The Motor Vehicles Taxation Acts are administered by the police who are under the Home Department. The Commissioner of Police is entrusted with the granting of driving licences and kindred matters, and so it is best that revenue from taxation on motor vehicles should be in his hands also. In Bombay, the municipal administration assists the Motor Vehicles Department at Police Headquarters.

The electricity duty was introduced in Bombay in 1932 and increased recently to make up for revenue lost under

excise owing to the introduction of prohibition. The tax is collected by the companies that supply electricity, when they collect bills from their customers. So expenses in connection with the collection of this tax are negligible. In Bombay, the Bombay Electric Supply and Tramways Company collects the duty for government. By far the largest amount collected is in the city and suburbs of Bombay.

The urban immovable property tax was introduced very recently to cover up the deficiencies in excise revenue. The tax only applies to properties in the cities of Bombay and Ahmedabad. No special collection agency has been started, as the municipalities in these two cities are required to collect it along with their own property taxes.

The U.P. Government had imposed an employment tax, which like the urban immovable property tax was challenged in the courts. The tax has now been dropped. The sales tax has been introduced in Bengal and Madras. It was to be introduced in Bombay, but was given up owing to great difficulties that were being encountered. The entertainment tax is collected at the time that entrance tickets for shows or performances are sold.

Reports

Every revenue agency keeps its detailed accounts and a close watch over actuals, and at the end of every month submits figures, showing the progress of revenue, to the Finance Department. At regular intervals (after four, seven and nine months) reports are sent to the same department, explaining the causes of all variations and giving revised estimates for the year on the basis of the actual figures of the past months and of any information or event that is likely to affect the future.

B. Expenditure

If the Finance Department exercises only supervision, direct at the centre and indirect in the provinces, over the collection of revenue, over expenditure it exercises rigid

control. By such a control over all operations—the distribution of grants, the making of payments, the watching of the progress of the budget and the final balancing of revenue and expenditure—the Finance Department exercises also a continuous check. It is the Finance Department that communicates grants to the different departments and allows them to draw upon the public account. It is the Finance Department that keeps watch over expenditure, even though the department concerned is primarily responsible for watching the progress of its own actuals and for bringing to the notice of the Finance Department either a marked variation in the rate of expenditure or a likely saving or excess at the end of the year. In particular if the grant by the legislature is likely to be exceeded, the department concerned must take steps to obtain supplementary grants before the end of the financial year, or the Auditor General will treat excesses as serious faults of the administrative agency concerned, as transgressions of the declared will of the legislature.

Distribution of Grants

The hierarchy of control in India consists of the disbursing officers, the controlling authorities, the departmental heads, the Finance Department and the Auditor General. Copies of the civil budget estimates are distributed to the different departments and officers who thus know what provision has been made for different items in the final estimates. If the demands for grants are reduced by the legislature, then the Secretary of the Legislative Assembly informs the administrative and finance departments and the Auditor General, in the provinces the Accountant General, of the reductions that have been made. The Finance Department distributes the grants and appropriations, after they have been finally authorised by the authenticated schedule of expenditure, to the administrative departments and to the controlling authorities, who in their turn distribute them to the different disbursing officers according to the primary units of appropriation. The task of distribution becomes onerous when the government or the legislature make lump

sum reductions, specially when these reductions relate to items covering many districts and a large number of sub-heads for the district. When a lump cut cannot be distributed by primary units, the administrative department informs each controlling officer of the lump cut that has been made under each major head.

Appropriations by the legislature are made through grants and each grant covers usually one major head. This major head is divided[1] into minor heads and sub-heads and these in turn into primary units or detailed heads. In some cases, however, minor heads are straightway divided into detailed heads. A whole list of major, minor and detailed heads[2] is published by the Auditor General.[3] No change may be made in these heads unless the sanction of the Finance Department has been obtained, and both the Auditor General and the legislature are informed about it. This rule is essential to maintain uniformity in accounts and enable easy comparison with the past.

The controlling authorities and the disbursing officers may distribute the whole or part of the grants received to their subordinates according to detailed heads or to specific items or groups of items. Such distribution is, however, not officially recognized. Both controlling and disbursing officers have the responsibility to see that the total expenditure under a detailed head does not exceed the grant given under that head ; and if it does exceed, that the formal sanction of re-appropriation from the proper authorities is obtained.

1. e.g. the major head Land Revenue is divided into the minor heads : A. Charges of Administration, B. Survey, Settlement and Record Operations, C. Land Records, D. Assignments and Compensations, E. Charges in England, F. Loss or Gain by Exchange. The minor head C. Land Records is divided in turn into the following sub-heads : C-1 Superintendence, C-2 City Land Records, C-3 Alienation Office, Poona, C-4 District Charges etc. ; and each of these sub-heads is divided into primary units, e.g., under C-1 Superintendence there are : C-1(1) Pay of Officers, C-1(2) Pay of Establishment, C-1(3) Allowances, Honoraria, etc., C-1 (4) Contingencies. Vide Appendix XII(B).
2. Vide Appendix XV.
3. For the accounts system on which the budget is based and the voice which the Auditor General has in determining that system, vide Ch. IX, *The Auditor General and Accounts,* sqq.

PAYMENTS

Receipts and payments are effected through a treasury or the Reserve Bank. The procedure for paying or receiving moneys is given in a subsequent chapter.[1] What has to be noted here is that as grants and appropriations are for a year only and the accounts are on a strictly cash basis, unspent balances lapse and expenditure delayed to the next financial year must be re-budgeted for, unless provision against lapses has been authorised by the government concerned.[2] Further want of provision in the estimates does not operate to prevent payment of sums due by government nor want of sanction to prevent record of any actual payment. It is obvious that economy is not promoted by merely postponing expenditure.

To promote economy in government cash balances, executive officers are required not to withdraw money from the treasury or the Bank unless required for immediate payment. This helps the ways and means position of the government and prevents withdrawals of moneys to avoid the lapse of appropriations.

No department is anxious to surrender a part of its appropriation. There is a sense of loyalty to the department, a feeling even of loss with regard to the particular service if savings are given up. Hence the usual rush for payments during the month of March, especially the last three or four days.

Every spending authority before making any payment has to see that three conditions are fulfilled : first, that the sanction of a competent authority has been obtained ; secondly, that funds to cover the charge during the year have been duly provided for ; thirdly, that no breach of universally recognised standards of financial propriety[3] is

1. Vide Ch. IX, *Government Treasuries and their Working.*
2. Allowed only for irrigation and other large Public Works schemes.
3. Vide Ch. IX, *Audit of Expenditure.* It is noteworthy that these standards of financial propriety were, according to the scheme of the Act of 1919, explicitly mentioned as canons of financial propriety in the Auditor General's Rules and in the Account and Audit Codes based on them. Now the standards are implied in the Audit and Accounts Order, para 13(1).

involved. These are the three general principles or regulations that govern every payment. The standards of financial propriety aim at maintaining a high standard of conduct in government administration, at promoting economy, and through audit examination even at improving general administration.

For all expenditure, sanction, both administrative and financial, is very important. No payment can be made if either sanction is missing. Any officer who spends government moneys without proper sanction is personally liable for the moneys disbursed. Orders conveying sanctions to expenditure have to be communicated to the proper audit authorities. Further, unless these orders are by authorities possessing delegated power or by the administrative departments in matters where the consent of the Finance Department is presumed, they have to be conveyed under the endorsement of the Finance Department, which determines the financial powers of the various authorities. These powers are published in the *Book of Financial Powers.*

RE-APPROPRIATION

Variations from the estimates there are bound to be and re-appropriations are the means by which such variations may be met. Because of re-appropriations the budget gets a much needed elasticity. The legislature votes grants by major heads and these may not be exceeded without its sanction. But within a major head transfers for good reasons may be made ; though all such re-appropriations must be sanctioned before the financial year to which they refer has expired. All re-appropriations are subject to the sanction of the Finance Department which has the power to authorise a re-appropriation from one major, minor or subordinate head to another within the same grant in the authenticated schedule. The administrative departments may sanction re-appropriations between heads subordinate to a minor head, provided they do not involve undertaking a recurring liability. Orders sanctioning such a re-appropriation must be communicated, as soon as they are passed, to the Finance Department and to the audit authorities.

Controlling and disbursing authorities also have certain powers of re-appropriation from one primary unit to another.

All these powers of re-appropriation whether of the Finance Department or any other sanctioning authority are subject to this limitation, that no re-appropriation can be made, without the specific sanction of the legislature, to restore or increase expenditure on an item the provision for which was specifically omitted or reduced by the vote of the legislature. This prevents the executive from overriding the wishes of the legislature.

In general, no executive authority may meet by re-appropriation that which it is not empowered to meet by appropriation. However, re-appropriations within the same sub-head from one primary unit to another are always allowed.

Again as regards charged and voted expenditure no appropriation is allowable from one to the other, nor can a re-appropriation be sanctioned from or to sums included by the Governor General or Governor for the specific discharge of any of their special responsibilities.

During the year fresh needs may turn up. In regard to these the executive follows the principle that expenditure not budgeted for but which may be postponed should not be incurred. However, if the need is so urgent that it may not be postponed and funds are not available by re-appropriation, an application must be made for provision of additional funds. The application must state the reasons why immediate expenditure is considered so indispensable, how it is proposed to meet such expenditure and why it could not be foreseen when the estimates were prepared. It is the responsibility of the controlling officer to see that disbursements are reasonably anticipated ; on him the Finance Department depends for smooth financial working.

Watching of Actuals

While the budget is being executed, there is need of constant supervision over the progress of actual receipts and payments. There is no other way of seeing that the

original plan is adhered to. Departmental responsibility and watching of actuals are the two means of securing continuous financial control. The latter enables executive authorities to see whether the rate of expenditure or income is maintained according to anticipations ; the former makes departmental heads responsible for seeing that expenditure is kept within funds and further, if it is likely to exceed the grants, for taking steps to secure re-appropriations or supplementary grants. The executive officer for that purpose is usually the departmental head, in a few cases a special Finance Officer.[1] The local Accountant General in the provinces and the Accountant General, Central Revenues, at the centre come in as expert advisers on facts connected with the accounts as ascertained from time to time.

The controlling authorities are responsible for the important function of keeping constant and intelligent watch over the progress and the rate of progress of expenditure, so that likely excesses are provided for in time and savings promptly surrendered to government. The Accountant General also watches expenditure but under primary units (detailed heads) only. The responsibility for watching the progress of expenditure under the different heads subordinate to each primary unit and of keeping within a grant rests, however, entirely with the controlling authority and not the Accountant General.

The controlling authority for this purpose either distributes his grants in detail to the various disbursing officers giving complete account classifications for each class of expenditure, or he may retain the funds wholly or partly under his own direct control. To help him in this financial control, he has certain powers of re-appropriation.

By the tenth of every month he gets from the disbursing officers a statement of expenditure for the month that is just completed together with the progressive totals to date. He consolidates the different statements, and so gets an idea of the total expenditure to date against each detailed head of appropriation for which he is responsible. For efficient

1. For the Defence Services, Railways and Posts and Telegraphs.

control information has to be obtained as early as possible. These statements give him detailed information of his financial position, though not so promptly or accurately as would be possible if the departments kept their own accounts, and keep him in touch with his commitments. The controlling authority's accounts are a little later[1] reconciled with the accounts kept by the Accountant General to eliminate discrepancies that might defeat control.

By watching actuals the controlling authority is able to discern if savings or excesses are likely. Surrenders of savings are required to be intimated as promptly as possible but not before 15th July. The last date for such surrenders is 15th February ; after that date only substantial sums are surrendered by the administrative departments with the sanction of the Finance Department. If excesses are anticipated re-appropriations and supplementary grants must be arranged for.

The Finance Department, of course, keeps watch over the trend of revenue and expenditure. But the primary responsibility for control of expenditure rests with the controlling authority. The Accountant General, as was said above, also watches actuals, though only from the appropriation audit point of view, and brings to the notice of the Finance Department any special features that call for attention.

Periodical Reports

Three-Monthly Reports. To detect divergencies from the original plan of estimates the Finance Department requires all departments to submit a three- (sometimes four-) monthly report or estimate. This estimate is based on three or four months' actuals of the current year and anticipated income or expenditure for the remaining nine or eight months of the year. Three months are not too long to get at the results of the working of the budget ; yet all

1. One of the disadvantages of the departments not keeping their accounts is that actuals for a month are not received till after the third week of the following month—a factor which certainly militates against prompt and efficient control.

conspicuous trends will make themselves noticeable. Even if no steps need be taken to remedy matters, even if only a few changes are necessary, it still keeps the administrative authorities concerned and the Finance Department on their guard. In times of economic depression or war or some great catastrophe, it enables errors to be detected and corrected in good time, so that the damage to the financial or commercial structure of the country is negligible.

Six-Monthly Reports. A similar report or estimate is made on the basis of six (sometimes seven) months' actuals. This estimate is a sure pointer to the finance and administrative departments. It furnishes information whether supplementary grants or re-appropriations will be necessary. At about this time the revenue position is also fairly clear and the need for increase of taxation, if any, will be evident.

Revised Estimates. The last of such reports is based on eight months' actuals (for revenue ten months) and is called the Revised Estimate. By this time the government is fully aware of what the final result is likely to be. This is also the time when savings are surrendered, re-appropriations effected and supplementary grants obtained from the legislature.

These reports enable the Finance Department to follow the progress both of expenditure and revenue, and thus maintain budgetary equilibrium at all times.

C. Annual Balancing of Income and Expenditure

The accounts of the financial year, as they are maintained on a cash basis, are closed promptly at the end of business hours on 31st March. This statement needs some qualification. The accounts are closed so far as any new transactions are concerned, but they are kept open for some time longer in order that cash receipts and payments effected during the year may be included in the accounts of that year. For example, cheques issued during the last days of March may not be cashed for some days to come. As a matter of fact during those days there is usually a rush of payments,

for no department wants to surrender its appropriations. Time is given for all these transactions to be completed. An opportunity is afforded for adjustments and corrections in the accounts of the year to be carried out. Consequently there are three accounts for the month of March, March Preliminary about the middle of April, March Final, by the middle of June, and lastly March Supplementary a month later.

As transactions are completed by the executive, they are taken up by the Auditor General for audit scrutiny. And he, therefore, forms one more agent for control over the execution of the budget. Audit is continuous ; and as the audit authorities are also, except in a few departments, the accounting authorities, they are able to render substantial help to the Finance Department. The Auditor General or the Accountant General also prepares reports on the accounts he audits. Audit is dealt with more fully in chapter IX.

The Public Accounts Committee then takes up the accounts and reports prepared by the Auditor General, scrutinises them carefully, examines heads of departments, and records its conclusions. This committee has no executive power, but the very fact that it may call heads of departments to give witness and explain their conduct in financial matters during the year, and that it may censure all who disregard the will of the legislature, is effective for purposes of budgetary control.

The appropriation accounts will show the savings and the excesses during the year. Large savings as much as large excesses show defective budgeting. An occasional saving or excess may always be overlooked, but if it becomes a regular feature it deserves the fullest condemnation. Excesses, however, are more serious as they will come before the Public Accounts Committee for special scrutiny. To permit excesses or savings as a regular practice will tend to reduce the carefulness of the administration in budgeting.

After the Public Accounts Committee has reported, the excesses are considered by the legislature and regularised by a vote. With the annual balancing and the action taken by the legislature, the budget for the year comes to an end.

CHAPTER VIII

WAYS AND MEANS, BALANCES AND RESOURCE

IN executing the budget, government has to face the difficulty of meeting payments fairly evenly throughout the year, though revenue comes in chiefly at well marked seasons. Sometimes, for example on days when interest payments or salaries become due, the expenditure far exceeds the revenue collected during those days. Ways and means estimates are, therefore, prepared to show what receipts or payments may properly be expected during every month and week of the year. For, if at any time, government balances with the Reserve Bank fall or are likely to fall low, then steps must be taken to replenish them either by advances from the Bank or by floating treasury bills or occasionally even loans when the floating debt is unduly large. Hence ways and means operations are those required to maintain adequate balances *at all times.*

On the other hand money will require to be moved during seasons to the treasuries in particular places where balances are falling. These operations to maintain balances *at all places* are called resource operations. Therefore ways and means is concerned with the provision of funds over *time,* resource over *space. Both are important* as at no time or place can government afford to lower its prestige by declaring its inability to meet a demand or claim, in other words to declare itself insolvent.

Consequently both ways and means and resource are a problem of balances; the one to maintain favourable balances at all times and the other at all places. Each government has to keep a minimum balance with the Reserve Bank which is the government's banker. Should the balance fall below the minimum agreed upon, the Bank is allowed to charge interest on the deficiency. By an arrangement with the Reserve Bank, even though the minimum according to the letter of the agreement must be maintained at all

times, it is sufficient if on the close of business every Friday afternoon that minimum balance lies to government's credit.[1]

There is, therefore, a unity in the three problems considered in this chapter, and we shall take each in turn. The agency for ways and means work is naturally the Finance Department. Previously the Controller of the Currency assisted by five deputies and thirteen Currency Officers in the important towns and cities of India was entrusted with ways and means and resource work in addition to currency duties. The advice of the Reserve Bank on all ways and means matters is available to both the central and provincial governments.

Ways and Means Estimates

As soon as the budget figures are available, estimates are prepared,[2] in the month of March for the financial year following, of the probable amounts of receipts and payments by month and by week under the different main heads of revenue and expenditure. The aim of ways and means estimating is not to obtain the total amount that will be received or spent during the month as the gap between the two. Hence ways and means estimates attempt to gauge as accurately as possible the differences, favourable or unfavourable, between receipts and disbursements, and as a corollary to calculate the probable requirements of permanent loans and floating debt for the coming financial year.

For this purpose the total budget estimates for the year are distributed throughout the year, month by month. Thus, greater accuracy in estimating what amount of accommodation and for what periods it will be required from time to time during the ensuing year is obtained. This distribution by important revenue, expenditure and debt heads (smaller heads are lumped together) month by month,

1. During the rest of the week a slightly smaller balance may be maintained e.g. in Bombay though the minimum balance is rupees thirty lakhs, the Bank allows the government the lower figure of twenty-five lakhs on other days.

2. These are corrected in April or May when the final grants and revenue measures are known.

depends on a number of factors, e.g. the actual figures of five previous years for corresponding periods, known commitments as for instance dates for raising or repaying loans, a knowledge of the different factors influencing revenue or expenditure during particular seasons, the state of arrears, etc. From these figures, with the help of the opening balance and the minimum balances required to be kept with the Bank and in the treasuries the amount of floating debt required is arrived at.

The monthly estimates are then divided into weekly estimates and daily forecasts ; for in actual life receipts and expenditure accrue every day and sufficient funds must, therefore, be provided for daily requirements. In this connection it must be noted that the beginning of the month shows heavy payments, that holidays during the month make a difference, that transactions are heavier on Mondays than on Saturdays.

With the introduction of provincial autonomy each province has to look after its own balances including those under debt or deposit heads, and has, therefore, to face its own ways and means problems. In some provinces the flow of revenue is fairly even and keeps pace with the stream of expenditure. In others most of the revenue is collected in a few months and during the rest of the year payments always exceed receipts. Bombay, for example, is fairly happy in its ways and means problem ; not so, however, the Central Provinces and Berar, whose ways and means difficulties are serious. In general, however, during the last quarter of the financial year there is usually a large revenue surplus, which is very convenient to the market as government need not approach it for funds at a time when finance is required for the movement of crops, and to the government because the market being tighter the rates for borrowing will necessarily be higher.

The ways and means budget has to be confidential, as otherwise speculators may disturb the country's market. If they know in advance that a loan is to be floated, they will bring down the market with the result that interest rates will go up and security prices go down.

The ways and means estimates, as we have seen, are concerned only with the cash position of the government. Consequently book adjustments are neglected ; but estimates of the total receipts from whatever source obtained and the total payments in whatever direction made are taken into account. Hence these estimates include receipts from taxes, from new loans floated, from repayment of loans by subordinate authorities, postal cash certificates and saving bank deposits, and expenditure for all purposes e.g. expenditure chargeable to revenue, capital outlay, repayment of loans, withdrawals of cash certificates or savings bank deposits.

Ways and Means Advances and Treasury Bills

The gap between total receipts and disbursements is made up of floating debt which may be advanced by the Reserve Bank or obtained by the sale of treasury bills to the public. Floating debt is, as a rule, temporary ; but if it becomes large and is not likely to be paid off soon, it is always wiser to fund it. According to the ways and means estimates, the estimates of floating debt are framed. These estimates show not only the amounts required but the periods for which they are required ; and according to the rates of interest prevailing, the time for repayment, the amount required and other monetary considerations either ways and means advances or sales of treasury bills are decided upon. The provinces in particular need to develop a treasury bill market, so as to prevent money from seeking other channels of investment or moving to other centres. For this purpose a continuous treasury bill sales programme seems necessary. Another way to provide for ways and means is to keep larger balances from government funds in the Bank.

In the month of December, when the Finance Department draws up a forecast of probable revenue and expenditure for the ensuing year, it also prepares a ways and means budget note which gives briefly the loan policy for the year current and the following year. Another estimate is made at the end of August or beginning of September, after a permanent loan, if at all, has been floated. It is then easier to forecast the floating debt position. In preparing the

borrowing programme all book adjustments are neglected and only the cash position considered.

The provinces now provide for their own ways and means position, and so far they have found no difficulty in raising loans or floating treasury bills. Yet it would be highly advantageous to them to have a single body deal with borrowings both for themselves and for the Government of India. They have also to take into account the subventions, grants and assignments from the centre.

So far borrowing to fill up the gap caused by the excess of expenditure over revenue has been considered ; but there may be periods when revenue greatly exceeds expenditure. Surplus cash balances are invested temporarily in government securities by the Reserve Bank on behalf of the government. Interest on these investments is taken in deduction of interest charges rather than as a receipt because those balances have arisen as a result of borrowing.

To ease the ways and means position by avoiding overloading of any month with payments, interest dates are shifted and advance interest is paid. For instance a loan may be raised on 15th July, but it may be convenient and expedient to pay interest on 15th September and 15th March. In this case interest for the first two months from the middle of July to the middle of September is paid in advance on 15th July.

For the same reason discount or premium on new loans is not allowed to affect the year of issue unduly. It is spread out over the whole currency of the loan. The device used is to debit (when the loan is issued at a discount) the amount to a suspense head and to write off revenue each year and credit it to the suspense head, so that when the loan is to be repaid the total amount of deposits in the fund will equal the total discount.

Control over the Ways and Means Position

Monthly and Weekly Ways and Means Forecasts : These are monthly revised estimates framed in the last week

of the month on the basis of known actuals for the previous months, and contain revised estimates for the current month and approximate estimates for the next. In the light of these monthly forecasts the borrowing programme framed at the beginning of the year is altered. In the provinces these monthly forecasts are distributed by weeks and days ; and this suffices for efficient control. At the centre there is also a weekly estimate prepared giving the estimates for the next two or three months by weeks. To this is attached a note reviewing market conditions during the week and giving an opinion about the prospects of the future. This weekly report gives the balances to the credit of government at the beginning and end of each week, and shows how an increase or decrease has come about by giving particulars about the sales and discharges of treasury bills, remittances, taking or repayment of ways and means advances, and ordinary transactions relating to revenue and expenditure. In this way government is kept informed regularly about its ways and means position. In addition daily ways and means statements are prepared so that the position is closely watched.

Four-Monthly Ways and Means Revised Estimates : As in the case of estimates of revenue and expenditure there are frequent reviews of ways and means estimates for the purpose of exercising better control over the ways and means programme. A four-monthly estimate is prepared towards the end of August to enable the government to see if there is need of any modification in the programme drawn up at budget time, after a loan, if any, has been floated. This estimate gives the actuals of the first four months and the last eight months of the previous year, the budget estimates for the current year, the first four months' actuals and eight months' revised estimates of the current year by important heads. These last revised estimates take into account any information which will or is likely to affect the ways and means programme for the rest of the year. Similar statements are made on the basis of six or seven months' actuals,[1] when also a fair forecast of the ensuing year's budget is

1. End of November or beginning of December.

prepared together with a budget note showing the probable loan requirements.

Nine-monthly Ways and Means Revised Estimates: In the middle of January or February a further revised estimate is made on the basis of nine or ten months' actuals. The heads, for which figures are furnished in these estimates, are the same as those in the ways and means forecasts framed every month, and are entirely on a cash basis, all adjustments being excluded.

Along with the nine-monthly estimates there is a note giving comments on all variations of interest or importance between the monthly ways and means forecast prepared by the end of January and the nine-monthly estimates. The ways and means forecast will contain a cash basis estimate of actuals up to November, the preliminary actuals for December and the revised estimates for January, February and March. The revised estimate is based on the orders issued by government from time to time on the estimates of revenue, expenditure, debt and remittance heads. It is from these revised estimates that government gets an idea of what the net result of the orders passed by them is ; and having the next year's budget side by side it is able to benefit by the experience of the current year to modify the plans for the next.

The nine-monthly estimate, therefore, affords an opportunity to modify orders, if necessary, and the ways and means programme for the rest of the year in the light of the probable closing balances. This will show the government whether they ought to decrease or increase sales of treasury bills, etc. The estimates also afford government the opportunity of finding out their mistakes, whether the budget as a whole is working to a reasonable balance at the end of the year or not, what the effects of new taxation are and what consequent alterations may be necessary in taxation. The previous estimates undoubtedly help in this direction but proposals take their final shape only in the middle of February.

Watching the Market

Ways and means work requires constant vigilance on the part of the Finance Department. It has to watch the progress of revenue and expenditure and the difference in the cash transactions on the one hand and the state of the money market on the other. For this purpose the department maintains a money market register and a bank register. The former gives statistics about the money market handy for reference purposes. It contains daily quotations of treasury bills, gold and silver prices in Bombay and London, prices of cotton, call money rates, rates of discount, bank rates, prices of government securities in England and India as ascertained from brokers, etc. The bank register shows week by week the government balances with the Bank, the result of ordinary transactions, sales or discharges of treasury bills, ways and means advances, discharge of loans, flotation of new loans, purchase of sterling, etc. This weekly statement is compared with the weekly estimates, spoken of above, and a report is prepared for government showing how the balance has been arrived at and explaining any large variations of closing balances from the estimate which is analysed in the light of actuals.

Resource

Resource is concerned with the problem of keeping sufficient balances at different places to make the requisite payments. With the establishment of the Reserve Bank resource work has been transferred to it. Governments are now concerned with two problems : (*i*) to keep at all times the minimum cash balance agreed upon with the Bank and (*ii*) to keep sufficient cash in treasuries, which do not bank with the Reserve Bank or the Imperial Bank, for the day to day requirements.

As regards the former the Reserve Bank informs each Provincial Government by telegram at the end of each week, i.e. at the close of business on Friday, of the cash balance to its credit. If required the Bank is prepared to furnish reports of daily balances. The Central Government needs

information daily considering both the volume of payments and the large area over which they are spread.

As regards the latter a normal treasury balance is fixed by the Finance Department for each treasury and the sub-treasuries subordinate to it. The Treasury Officer fixes the balance for each sub-treasury. This balance is so fixed that while all local demands may be met there is no useless locking up of funds ; for if treasury balances are kept low the balances with the Bank will be proportionately larger. Treasury Officers are responsible for keeping their treasury and sub-treasury balances as low as possible and depositing all excesses over normal balances into currency chests,[1] or, if there is no currency chest at the place where the excess occurs, for remitting them elsewhere. Treasury Officers submit reports of the cash balances in the treasury and sub-treasuries every week[2] to the Finance Department which is thus able carefully to watch the weekly balances, in order that any tendency on the part of the Treasury Officers to maintain unnecessary balances may be sternly discouraged. Owing to the many formalities connected with the transfer to and from the currency chests, there is less incentive to operate on them. The Treasury Officer is, therefore, called upon to give a satisfactory explanation whenever the balance in the treasury exceeds the normal prescribed amount.

Government has further the help of the ways and means statements from various departments, which give periodical forecasts of anticipated receipts and disbursements during the remaining months of the year. With the help of all this information government is in a good position to learn what the cash position is likely to be from month to month.

Currency Chests

The assets of the reserve of the Issue Department of

1. See below *Currency Chests* for explanation.
2. Accounts of sub-treasuries are usually closed some three to five days in advance, so as to be included in the monthly treasury accounts. And, therefore, the correct balance in the sub-treasury for the last week of the month (after the accounts are closed for the month) is included in the first week of the next month.

the Reserve Bank may be kept in any part of India ; what is required is that the total of the reserve should not be allowed to fall below the total amount of notes in circulation. Hence currency chests are provided at district treasuries and sub-treasuries. These currency chests contain a portion of the assets of the Issue Department ; into them all surpluses of cash over the requirements of the treasury are deposited. These currency chests are entirely different[1] from the treasury chests which contain treasury balances ; and even their accounts are outside the general treasury accounts. Remittance from one place to another is made by depositing a certain sum from the treasury into the currency chest at one place and transferring an equivalent sum from the currency chest to a treasury or the Bank in another place.[2] Hence by a deposit into the currency chest there is a corresponding increase in the government balances with the Reserve Bank. Hence also in effect there has been a transfer of funds from one place to another without the dangers and difficulties connected with the physical conveyance of the funds. In this way surpluses in the districts can be transferred to provincial headquarters. Besides, as it often happens, some treasuries during the revenue season have substantial surpluses, though for the rest of the year they are deficit. The currency chests provide a way to keep funds ready for use later on, though for the present the contents of these chests may be used to strengthen government balances at other places. This avoids the necessity to remit funds to the treasury during the deficit season and from the treasury during the revenue season. Normal balances are prescribed in March for the different months of the year ; and by means of currency chest transfers the government is able to maintain balances without the necessity of having actually to remit funds to and fro and thereby incur heavy remittance charges.

By the use of currency chests, therefore, economy of metallic currency is promoted, operations of the Issue

1. There are separate chests provided for the two purposes.
2. The opposite payments according to the arrangements with the Reserve Bank are made at the office of the Bank itself, wherever possible. This saves commission to be paid to the Imperial Bank.

Department facilitated, and unnecessary movements of coin and notes avoided. However, if a treasury is constantly and heavily in deficit, the currency chests will not be able to prevent an actual transfer of cash for all time ; a point will be reached when such a transfer must be made.

Operations on currency chests also help to expand[1] or contract the note issue without affecting the equilibrium of assets and liabilities in the chests. There are four ways of operating on the currency chests : (*a*) there may be a withdrawal of rupees and the opposite payment made in rupees also, then there is no change, or (*b*) there may be a withdrawal of notes and the opposite payment also in notes, then again there will be no change. (*c*) But if there is a withdrawal of rupees and the opposite payment is in notes, then the note issue is contracted against a diminution of silver backing, and lastly (*d*) if for a withdrawal of notes the opposite payment is in rupees, then there is an expansion of the note issue against an expansion of silver reserve in the chest.

The Problem of Balances

With regard to balances the government has to follow three principles : (*a*) safety, (*b*) economy and (*c*) adequacy. We ought to see how the governments in India comply with these principles.

There is no gainsaying the fact that safety is very essential. Government cannot undertake risk in any way, even though an investment may promise a good return. And further it must take proper measures to safeguard the cash and valuables in its custody. Both these conditions are fulfilled. The balances of government are in treasuries or with the Reserve Bank under proper safeguards. The government does not aim at making a profit at all, and so it is not concerned about making investments in shares or other industrial securities.

1. Another way to expand the currency during the season is to issue notes against trade bills of 90 days or less.

Economy is appreciated by all. To manage with as low a balance as possible shows skill and ability. Besides the smaller the government balances required, the less interest charges have to be paid and more funds are placed at the disposal of trade and industry, as fewer and smaller borrowings are necessary. A large cash balance means imposition of taxation or flotation of a loan and payment of interest. It means money lying idle with the government without earning interest, which might have found profitable employment in trade and commerce.

Adequacy is essential for government prestige. Government cannot afford to postpone payments until the treasury has sufficient cash at its disposal. Hence government must watch over its cash position not only over the whole year or a month but every week and every day, because government business is continuous.

To manage balances requires skill and ability, a knowledge of the requirements of the administration and of the money market, and also the trends in business and commerce. The Central Government has a heavier task to perform than the Provincial Government ; because it has not only a very much larger volume of expenditure (greater than all the Provincial Governments put together), but also a very large area to cater for and sterling obligations to meet, even though all its income is in rupees. There are questions of exchange and currency to be faced for which knowledge of policies followed by other countries e.g. the U.S.A. is necessary and also knowledge of general world conditions.

We may divide balances into three kinds : (*a*) treasury balances, (*b*) bank balances and (*c*) balances in England. We have already spoken of the first two. Treasury balances are those required to meet demands on treasuries not served by banking facilities. A normal balance for each treasury is fixed by the Finance Department. Bank balances are the balances of the different governments with the Reserve Bank. Minimum balances to be kept are agreed upon, and the Bank is empowered to charge interest on deficiencies.

The relations of the Reserve Bank with the governments are dealt with in chapter XII. Suffice it to say here that the Bank is bound to accept moneys on account of the governments and the governments in turn are bound to keep all their balances with it free of interest. In addition the Bank carries out exchange, remittance and other banking operations. The Bank advises the different governments about the conditions of the money market and the best time for borrowing. It makes ways and means advances to them and issues treasury bills on their behalf. It works out the government balances each day, every week and every month. The reconciliation of the Bank with treasury figures of transactions as given in the accounts is important for verifying the correctness of the final figures; in reconciling the figures special attention is required to be paid to remittances in transit. The Reserve Bank manages all the resource operations, so that it has taken over the functions of the Controller of the Currency and his department.

Balances in England

Lastly we come to the balances held by the government in England. There is a large amount of expenditure to be met in England and it has to be met in sterling. The provinces have no work in this connection because all sterling transactions on behalf of the provinces are taken in the first instance against central funds, and later on adjusted against provincial revenue. Before the Reserve Bank was established government purchased sterling in India from approved banks and firms, and then by cable the London agents of the banks and firms were instructed to pay sterling into the account of the Secretary of State at the Bank of England. The Government of India therefore paid in rupees from its balances and got sterling to its credit in England. Now the Reserve Bank buys sterling from the Scheduled Banks (it is empowered to do so by S. 17 (3) of the Reserve Bank of India Act) and supplies it to the government at a rate of exchange depending on the prevailing market rates.

As the balance of trade is normally in India's favour, it is not difficult to obtain sterling ; for merchants abroad must pay their creditors in India in rupees. Hence the foreign merchant buys rupees and the government buys sterling for payment of its sterling charges. Difficulties arise when owing to adverse agricultural conditions the balance of trade is against India. The Reserve Bank will then sell sterling because it has the duty of maintaining the ratio.

CHAPTER IX

AUDIT AND ACCOUNTS

KEEPING of accounts is the function of the executive, of the agencies that receive or spend moneys. Consequently, accounts should have been dealt with in the chapter on the execution of the budget. But in India the system of audit and accounts is peculiar for two reasons ; it is centralised and combines both functions for the most part in one agency, the Auditor General. This centralisation is a legacy from the days when the Government of India was also centralised, and the provinces were wholly dependent for their functions and powers on the Governor General in Council. Even today this centralisation continues, for though the provinces are entitled to have their own audit and accounts authorities, they have not availed themselves of the opportunity on financial grounds. The advantage of the centralised system has been a uniformity of accounts throughout India which is so essential for the presentation of statistical and comparative information for the whole country. As a result of this centralisation all that is said in this chapter, with such exceptions as may be pointed out, applies both to the provinces and the centre.

But the more serious peculiarity of the system is that the accounting and auditing functions are entrusted to the same agency. Such an arrangement cuts at the very roots of audit, and on principle stands condemned. We, therefore, have to see in what particulars this defect has been mitigated and whether the system functions effectively. We shall speak first of accounts and then of audit, reserving criticism and suggestions for the end. An experiment was tried in the United Provinces of separating accounts from audit, but was given up with the onset of the economic depression in 1931. The Secretary of State gave his sanction to the step on grounds of economy alone, leaving the question of principle still open for discussion.

The result of these factors has been that the Auditor General has become the head of a very large administrative department, which we have set forth in some detail in chapter IV. Some of the other pecularities of the Indian audit and accounts system have been mentioned in chapter II.

A. Public Accounts

The Auditor General and Accounts

In the sphere of accounts the Auditor General is empowered, with the approval of the Governor General, to prescribe the form of the federal accounts and give directions on the methods and principles of keeping the provincial accounts ;[1] and is required to perform such duties and exercise such powers in relation to both federal and provincial accounts as may be prescribed by an Order in Council or rules under it or by a subsequent Act of the federal legislature varying or extending such an Order.[2]

These duties and powers are made explicit in the Government of India (Audit and Accounts) Order[3] which deals not only with the Auditor General's accounting but also his audit functions, with questions of his appointment and that of Provincial Auditors General, if necessary, and with the relations of the Auditor General of India with the Provincial Auditors General and the Auditor of Indian Home Accounts.

By this Order the Auditor General is responsible for the keeping of the accounts of the federation and of each province except the accounts pertaining to railways, defence services and transactions[4] in the United Kingdom,[5] which are kept, as in the British financial system, by an accounting organisation attached to the executive departments and distinct from audit.

1. S. 168. 2. S. 166 (3).
3. Hereafter referred to as the Audit and Accounts Order or simply the A.A.O. It is framed under S. 166 (2) and (3); S. 170 (3) and S. 309 (1).—Vide Appendix I.
4. Of the India Office and the Office of the High Commissioner for India. 5. A.A.O., para 11 (1).

But if the Auditor General keeps the records of such a large portion of the transactions, audit would be perfectly meaningless, because the same agency that keeps the accounts would then be auditing them. To avoid this serious fault the Governor General is empowered to relieve the Auditor General of the responsibility of keeping accounts of any particular class or character.[1] Consequently, under the Initial and Subsidiary Accounts Rules[2] the Auditor General has been relieved of the task of keeping treasury accounts, initial and subsidiary departmental accounts, accounts of stores and stocks, and commercial accounts ; though he retains the authority to determine the dates on which treasuries, offices or departments should submit their initial accounts to the accounts and audit offices under his control, and to prescribe the form not only of the accounts rendered but also of the accounts on which they are based. The Auditor General is thus enabled to issue changes or modifications in the form of initial accounts without seeking on any occasion the Governor General's approval under S. 168 of the Act ; though in practice the Auditor General uses this power only when the modifications in the form of initial accounts follow directly on changes in the form of general accounts or are not inconsistent with the form of general accounts as approved by the Governor General.[3] When the accounts of a department are not kept by the Auditor General, the form of initial accounts determined by the departmental accounting authorities is deemed to have the sanction[4] of the Auditor General, unless questioned by him with the approval of the Governor General.

The Audit and Accounts Order also provides that the Governor General for the federation and the Governor for the province, after consultation with the Auditor General, may make rules to relieve him of the duty of keeping the accounts of any particular service or department.[5] This provision will enable the separation of accounts from audit

1. Ibid., para 11 (3). 2. Vide Appendix IV. 3. Account Code, article 3.
4. Required under S. 168 of the Act and Rule 4 of the Initial and Subsidiary Accounts Rules. 5. A.A.O., para 11 (2).

without recourse to a change in the Order in Council. The question of this separation is in principle an open question ; and this clause provides an easy way out should need arise.

The Auditor General is responsible for drawing up the Appropriation Accounts, should he keep the accounts, and in any event for compiling the Finance Accounts of the federation and of each province for submission to the various governments on dates fixed mutually by them and the Auditor General.[1] The uniformity of accounts in the past facilitated the publication of a consolidated General Financial Statement for the whole of India. As the provinces are now autonomous units separate Finance Accounts are compiled for the centre and for each province. For the sake of continuity and comparison with previous years the Auditor General is required to prepare every year, in such form as he with the concurrence of the Governor General may determine, the Combined Finance and Revenue Accounts,[2] which constitute the final accounts compilation in India and are presented to the Governor General.

Though the Auditor General is entrusted with accounting functions, he is required to comply with the general or specific orders of the Governor General or Governors, as the case may be, as to the head of account to which any specified transaction or transactions of any specified class are to be taken.[2] The Governor General in issuing any such order has to exercise his individual judgment after consulting the Auditor General. As accounting is really an executive function, the power of the chief executive to pass final judgment on the recording of a transaction must be conceded. The Auditor General may, however, question the classification in his audit reports.

The Auditor General and the executive are required to give mutual assistance. In a system of combined accounts and audit the auditor is in a position to supply a good deal of financial information to the executive. The Auditor General must furnish the Central and the Provincial Governments with such information as they may require from

1. Ibid., 11 (9). 2. Ibid., 12. 3. Ibid., 11 (5).

time to time and assistance in preparing the budget statement,[1] as the accounts he keeps enable him to do. On the other hand, the executive must supply the Auditor General such information as he may require to compile his accounts or prepare his reports.[2]

In order to maintain a high standard of accounts the Auditor General has authority to inspect any accounts office in India, whether central or provincial, including treasuries and departmental offices keeping their own initial and subsidiary accounts.[3] These inspections give him the advantage of correcting mistakes of procedure or principle, of giving personal instruction, and even of knowing the special difficulties that may beset any particular office.

The Auditor General has no statutory obligation to keep the accounts of the Crown Representative, but it has been arranged that he should keep them and prepare the Appropriation Accounts. The methods and principles to be followed are determined by the Crown Representative after consultation with the Auditor General.[4]

To summarise, the Auditor General of India is responsible for keeping the accounts, except the initial accounts, of the provinces and the federation, and preparing the Appropriation Accounts, the Finance Accounts for the centre and each province, and the Combined Finance and Revenue Accounts for the whole of India. The accounts of the defence services and the railways, of the India Office and the Office of the High Commissioner for India are kept by their own accounting organisations who also prepare the Appropriation Accounts. The Auditor General is required to furnish such information gathered from the accounts as the central and provincial executives may require and assist them in preparing their annual budgets. The executives on their part are obliged to furnish the Auditor General with such information as he may require for preparing his accounts and reports. He is empowered, except as regards

1. Ibid., 15. 2. Ibid., 16 (ii). 3. Ibid., 17.
4. Vide Ch. XIV, *The Crown Representative's Department*.

the submission of certain statements and reports, to delegate his authority to his subordinate officers for any of the duties he has to perform.[1]

General Principles and Methods of Accounts

Before dealing with the different accounting processes and the part played by different agencies in working up the accounts to the final stage, certain general considerations bearing on accounts ought to be made. Some of the principles on which the accounts are based find expression either in the Act or Order in Council, others are determined by rules issued by the Auditor General. We have seen above that the Auditor General has the statutory power[2] to prescribe the form of accounts, and the general principles and methods on which they should be kept. These directions together with other matters relating to accounts are contained in the Account Code.[3]

1. There is a public account or consolidated fund for each province and for the centre. There is no explicit sanction in the Act for the public account ; it must be inferred from S. 151 which empowers the Governor General and the Governors to frame rules for securing that all revenues[4] are paid into the respective public accounts and

1. Vide A.A.O., para 19. 2. Vide S. 168.

3. The Account Code issued by the Auditor General with the approval of the Governor General is divided into four volumes. Vol. I deals with the general principles and methods of accounts and the main directions under S. 168. Vol. II contains the directions relating to initial accounts kept by treasuries and the form in which these accounts should be rendered to the Audit and Accounts offices, and similarly Vol. III contains the directions on initial and subsidiary accounts and the form of accounts kept in the Public Works and Forest Departments ; and sanction for these two volumes is S. 168 or clause 4 (*b*) of the Initial and Subsidiary Accounts Rules. Vol. IV gives the instructions relating to the form in which accounts in account offices are kept and the procedure to be adopted in keeping them. Authority for Vol. IV is S. 168 or A.A.O., para 11 (1), according as the rules relate to form or directions.

4. The revenues of the federation or province are defined to include all revenues and public moneys raised or received by them respectively, subject to assignments of the whole or part of the net proceeds of certain taxes and duties to the provinces and Federated States and to the statutory provisions relating to the Federal Railway Authority.—S. 136.

for prescribing the procedure for payment of moneys into the account, their withdrawal or custody, and other ancillary matters.

2. Government accounts are on a cash basis ; they record the actual cash receipts and disbursements during the fiscal period, and thus make possible a prompt closing of accounts and early preparation of an accounting statement.

3. The fiscal period in India is the year commencing from 1st April, with reference to which all accounts are prepared.[1] When it is said that the year ends on 31st March, it means that no actual transaction after that date is accounted for in that year. The accounts, however, are kept open till July for the completion of various accounting processes, e.g. adjustments, closing of suspense accounts, correction of mistakes in posting and classification and so on.

4. Cash balances in the different public accounts are held in the treasuries or the Reserve Bank or its agent the Imperial Bank,[2] unless otherwise provided for specifically. The treasuries compile the initial accounts ; the Reserve Bank does not compile any accounts but carries on the general banking business[3] of the provincial and central governments. The Central Government operates on all the offices of the Bank ;[4] the Provincial Government on those offices that are situated within the area of its jurisdiction. Hence the Reserve Bank keeps two separate accounts of cash transactions, one for the Central Government and the other for the Provincial Government. All transactions that cannot be taken directly to the account of the former are recorded in the latter. Each office of the Bank sends separate daily statements for central and provincial transactions with supporting vouchers to the Treasury Officer or Accountant

1. Vide A.A.O., paras 11 and 12.
2. Namely, the branches of the Imperial Bank, where there is no office of the Reserve Bank.
3. Receipt, collection, deposit, payment and remittance of moneys.
4. "Bank" refers to the offices and branches of the Reserve Bank and the branches of the Imperial Bank of India acting as agents of the Reserve Bank.

General. At the end of the month the balances of the accounts are transferred[1] to the Central Accounts Section[2] of the Reserve Bank at Calcutta which maintains the full accounts of the balances of the centre and of each province, and acts as a general Clearing House for the adjustment of transactions between different governments. These adjustments between province and province, and between the centre and a province are intimated to the C.A.S. by the Accountant General of the province in which the transaction has taken place ; and the Section communicates the transfers effected to the Accountant General concerned at the close of each day. At the end of the month, the closing balance of each government, after taking account of transactions at all offices and of all adjustments, is forwarded by the C.A.S. to the Accountant General concerned.

5. With the introduction of provincial autonomy the treasuries within the jurisdiction of a province belong to that Provincial Government, and the cash balances they contain, therefore, form part of the provincial public account. When a treasury carries on the general banking business of the government, moneys received or paid on behalf of the centre are in the first instance taken against the provincial cash balance, then adjusted by the Accountant General concerned, either when he receives the monthly treasury accounts or more frequently if required[3] through the C.A.S. Transactions of other provinces are similarly adjusted. In the central treasuries, which belong to the Central Government and which include those situated in the 'administered areas,' transactions of provinces are taken against central balances and then adjusted through the C.A.S.

6. The accounts maintained in India are in rupees ; accounts in England are in sterling. All sterling transactions relating to the centre or provinces are passed on monthly to India and recorded in Indian books after being converted into rupees. In the Finance Accounts of the

1. If by a branch of the Imperial Bank, then through the Central Accounts Office of that bank in Calcutta.
2. Referred to hereafter as the C.A.S.
3. Weekly or more frequently depending on the amount of transactions.

Central Government all transactions are shown in rupees ; in the Combined Finance and Revenue Accounts transactions of a genuinely sterling character[1] are shown both in rupees and in sterling.

7. To arrive at the cost of a service or undertaking accounts must be kept on a commercial basis. Government accounts being on a cash basis are unsuited to commercial purposes. Hence for the maintenance of capital, manufacturing, trading and profit and loss accounts the actual transactions are entered on *pro forma* accounts which are outside and in addition to the regular and general accounts of the government. These *pro forma* accounts are maintained by the commercial or quasi-commercial departments themselves in such form as may be agreed upon by the Auditor General and the government concerned.

Again in commercial accounts the principle of double entry book-keeping is followed ; government accounts, however, are kept on the single entry system. But the double entry principle is used to maintain a set of technical accounts called the Journal and Ledger to bring out by a scientific method the balances of accounts in regard to which the government acts as a banker, remitter, borrower or lender. Such balances are of course arrived at in the regular accounts ; but they are verified periodically by reference to the balances brought out by the double entry accounts. Separate journals and ledgers are maintained for the centre and for each province.

8. The form and classification of accounts is very important in any system of accounting. The more scientific the form and classification, the greater the information that can be deduced from the accounts. As we said before, it is the duty of the Auditor General to prescribe the form of accounts ; and if comparison is to be made between the planned and the executed budget the form of accounts and the form of the estimates must be similar. In practice the

1. e.g. debt, deposit, advances, etc. These are kept in sterling in the books of the Secretary of State and the High Commissioner for India.

form of accounts determines rather than follows the form of the estimates.

There is first the constitutional classification of expenditure into 'charged' and 'voted', and into 'revenue' and 'capital'. Next from the accounting point of view government accounts are divided into (*i*) Revenue, (*ii*) Capital, (*iii*) Debt, and (*iv*) Remittance.[1] Revenue deals with current revenues, such as taxes, and expenditure therefrom. Capital deals with expenditure undertaken with a view to increase concrete assets of a material character or to reduce recurring liabilities. Debt comprises receipts and payments by government acting as a borrower or lender. Remittance includes all merely adjusting heads and hence does not appear in the final accounts. These four divisions are grouped into Sections[2] distinguished by the letters of the alphabet, a double letter showing the capital portion of the particular set of transactions. Each section is divided into major heads[3] which form the main units of classification. Major heads on the receipt side of the revenue and capital divisions are marked by Roman numerals, those on the expenditure side by Arabic numerals.

The major head is divided into minor heads and these into still further subordinate heads called detailed

1. The first division deals with the proceeds of taxation and other receipts classed as revenue and the expenditure therefrom. The second division deals with expenditure met usually from borrowed funds, such expenditure being incurred with the object either of increasing concrete assets of a material character or of reducing recurring liabilities such as those for future pensions by payment of the capitalised value, and also final receipts of a capital nature intended to be applied as a set-off to capital expenditure. The third division comprises receipts and payments in respect of which government becomes liable to repay the moneys received or has a claim to recover the amounts paid together with repayments of the former and recoveries of the latter. The fourth division embraces all merely adjusting heads, under which appear remittances of cash between treasuries, as remittances by bills and remittance transfer receipts, as well as items in transit between different branches of the accounts department including accounting officers in England. The initial debits or credits to the heads in this division will be cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle.—Vide Account Code, Vol I, article 24.

2. Vide Appendix XI. 3. Vide Appendix XV.

heads.[1] Sometimes the minor head is divided into sub-heads and each sub-head into detailed heads. In all accounts the major and minor heads are to be arranged in the exact order as shown in the 'List of Major and Minor Heads'[2] and the prescribed classification even as regards nomenclature has to be followed strictly. Should need arise to introduce a new major or minor head, or abolish or change the nomenclature of an existing head the approval of the Auditor General[3] and sometimes of the Governor General is required. The Accountants General have the discretion to open all the prescribed detailed heads and even a new one if it is really essential.[4] These strict regulations to secure uniformity are essential for correct compilation, consolidation and comparison of accounts.

A third consideration of accounts classification is from the administrative point of view. Our system of accounts is based primarily not on the objects of expenditure or grounds on which it is sanctioned, but on the departments that spend the money. This provides, as was remarked in chapter I, for efficient administration and financial control, but makes it difficult to calculate the exact amounts that have been spent for a particular purpose.

General orders[5] and detailed regulations governing the classification of transactions in accounts are issued by the Auditor General. But the Governor General and the Governors, after consulting the Auditor General, are empowered to issue general or special orders as to the head of account under which any specified transaction or transactions of any specified class is or are to be included.

1. Vide Appendix XII (B).
2. Published by the Auditor General.
3. Changes in the form of accounts are always brought to the notice of the legislature and the public who might otherwise be thoroughly misled.
4. Detailed heads are not to be multiplied unnecessarily; but if they are opened they should be placed within the minor head as given in the Approved List and as near as possible to the head which it replaces or to which it is added.
5. Regarding pay and allowances of government servants, travelling allowances, refunds of advances, contributions made to or by a government, expenditure on civil works, etc.

9. On the general methods of accounts four points deserve special notice. First, receipts or charges pertaining to more than one head of account are for convenience booked in the first instance under one of the heads[1] and then adjusted before the closing of the year. Secondly, expenditure of a capital nature in commercial departments or undertakings is first debited to a capital head outside the revenue account, and what is financed from revenue is then transferred to the revenue account. The reverse is the case with other departments, unless there is a project which government decides to finance from borrowings or non-revenue sources, when expenditure is debited initially and finally outside the Revenue Account. Thirdly, when government undertakings are conducted on commercial lines, the essential formalities of commercial accounts must be observed. In these cases commercial accounts are outside the regular government accounts, though heads of accounts, as far as possible, are common to both, and so selected that the monthly classified account may be easily prepared from the General Ledger. Lastly, the accounts of each government work from balance to balance. The closing balances in the accounts of each month work up to the general cash balances of each government in the treasuries or at the Bank at the end of each month.

SYSTEM OF ACCOUNTS

There are five stages in the compilation of accounts in India. The first stage is that of initial accounts which may be recorded in the treasuries or the departments. All cash receipts and disbursements, central and provincial, pass through a treasury or the Bank. The initial accounts are maintained at the treasury, except those of certain departments,[2] whose transactions are shown in the treasury in a lump sum and whose detailed accounts are kept by the departmental officers concerned.

1. e.g. where charges for supply of water from irrigation canals are incorporated with the land revenue, the amount is first credited to "Land Revenue" and the share due to irrigation is then transferred to the irrigation revenue head.
2. Namely, the Railway, Defence, Posts and Telegraphs, Public Works, Forest and other departments so authorised.

The second stage is the submission of monthly accounts to the Accounts Officers, in the provinces to the Accountants General. Provincial treasuries submit separate accounts for the provincial and central governments, though central treasuries furnish only a single account.[1] Departmental officers submit their accounts—some in the form of suitable abstracts of transactions classified under prescribed heads of accounts—to their respective Accounts Officers.

The third stage is the compilation by Accounts Officers of Departmental Classified Abstracts from the material furnished by treasuries and departments. Such an abstract shows the monthly receipts and payments relating to each department for the whole account circle, classified under the relevant major, minor and detailed heads. These abstracts may be maintained for each department or group of small departments, or each major head or group of major heads of account not relating to any department. All adjustments of accounts are incorporated in these Classified Abstracts which thus include monthly all transactions of whatever nature connected with receipts or payments pertaining to a department or major head of account.

From the Departmental Classified Abstracts, separate Departmental Consolidated Abstracts showing the progressive totals of receipts and payments month by month under major, minor and detailed heads are compiled, and this is the fourth stage in the system of accounts. These Consolidated Abstracts are maintained for each department or major head of account or group of departments or major heads as found convenient. There are separate Classified and Consolidated Abstracts compiled for the central and provincial departments.

Transactions under debt and remittance heads appearing in treasury cash accounts and list of payments and departmental abstracts are collected for the whole circle

1. Provincial transactions are taken to an appropriate remittance head pending adjustments.

of account under each head of account from month to month in a Detail Book. From this Detail Book a Consolidated Abstract is prepared showing progressive totals by major, and, if necessary, minor and detailed heads. As before, separate Detail Books and Consolidated Abstracts are compiled for the central and provincial transactions.

From the Consolidated Abstracts are prepared the Abstracts of major head totals showing receipts and disbursements by major heads for the month, and this is the final stage of compilation. From the Consolidated Abstracts are also prepared the monthly and annual accounts of the centre and the provinces. At the close of every month the cash balances in the books of the Accountant General is reconciled with the balances as shown in the treasury cash accounts and the closing balances received from the Central Accounts Section of the Reserve Bank.

For the Posts and Telegraphs and the Railways the Accounts Officers submit monthly accounts to the Accountant General, Posts and Telegraphs, and the Controller of Railway Accounts who consolidate the accounts of their respective departments. The Military Accountant General compiles the accounts of the Defence Services.

The provincial Accountants General submit a copy of the monthly accounts of the province to the government concerned. The Accountant General, Central Revenues, consolidates the accounts received from civil Accounts Officers and the accounts prepared in his own office and submits them to the Central Government. The Accountant General, Posts and Telegraphs, and the Controller of Railway Accounts submit their accounts separately to the Central Government.

At the end of the year a copy of the annual accounts is submitted to the Auditor General by all the Civil Accounts Officers and the Departmental Accounts Officers. A copy of the annual accounts of each province is submitted to the Provincial Government concerned.

GOVERNMENT TREASURIES AND THEIR WORKING

The initial accounts of the centre and the provinces, except of certain departments referred to in the preceding section, are kept in the treasuries. The Reserve Bank with its agent, the Imperial Bank, acts as the government's banker ; but where there is neither an office of the Reserve Bank nor a branch of the Imperial Bank, the treasury performs banking functions and assists in resource work as well. Even where actual moneys are received or disbursed by the Bank, the scrutiny for receipts and expenditure is in the first instance made by the treasury. Hence in connection with treasuries we must see not only how the initial accounts are kept, but also how a payment is made or money received.

There are 1236 treasuries and sub-treasuries spread throughout the length and breadth of the country. Before the introduction of provincial autonomy all the treasuries belonged to the Central Government, which carried on the treasury work of the provinces also. Now the position is reversed and it is the provincial treasuries which undertake the treasury work of the centre. There are still, however, a few central treasuries, and these include treasuries in the 'administered areas' under the Crown Representative.

The treasury system in India is in marked contrast to the system prevailing in the United Kingdom. Here we have a number of treasuries spread throughout the land ; in the U.K. there is only one treasury and that at London. The British system is unitary ; ours owing to the size of the country has to be decentralised, thus comparing favourably with the treasury system of the U.S.A. This comparison goes even further. Till a few years ago both India and the U.S.A. had independent treasuries[1] for government business; now both employ the agency of the central bank.

The Governors and Governor General have issued Treasury Rules[2] under S. 151 to regulate the procedure to

1. Vide D. W. Dodwell, *Treasuries and Central Banks*, for the working of the independent treasury system in the U.S.A.
2. Vide Appendix VII.

be followed regarding the payment, withdrawal and custody of moneys in the public account and for other matters connected with or ancillary to such procedure. The Treasury Rules authorise the Finance Minister to prescribe Subsidiary Rules for the treasury procedure. Uniform Treasury Rules have been adopted throughout the country, and modifications to suit the needs of each administration are introduced by means of the Subsidiary Rules.

It is generally provided that there should be a treasury in each district in charge of a Collector, who though he may entrust the immediate executive control of the treasury to a Treasury Officer, subordinate to him, cannot divest himself of the administrative control. The Collector is responsible for the proper observance of procedure and the punctual submission of all returns whether to the government or the Accountant General or the Reserve Bank.[1] Officers of the Indian Audit Department inspect treasuries to see that they are efficiently managed and properly worked; yet the responsibility for management and inspection is entirely the Collector's.

It is the Treasury Officer, however, who is in close touch with and in immediate control of the treasury. He is the district officer's delegate and therefore responsible to him for the working of the treasury, the thorough observance of all treasury rules and attention to details of routine. With the Collector the Treasury Officer is jointly responsible for the safe custody of the cash and other government property.

The Treasury Officer has charge of routine work and has, therefore, to attend to a number of details.[2] Briefly,

1. To ensure that the Collector does maintain contact with the treasury he must (*i*) verify and certify the monthly cash balance and accounts either himself or through a senior officer other than the Treasury Officer, himself personally at least once in six months, and (*ii*) report the cash balance he takes over when appointed to a new district.

2. Subsidiary Rules show the different formalities he has to observe when receiving or paying out moneys or keeping or submitting accounts. The Treasury Officer is an executive officer in so far as he receives or pays out moneys; he does accounting work when he keeps the first record of transactions that have taken place. Vide Appendix VIII.

however, the Treasury Officer is responsible for the regularity of every payment made at the treasury. He has no general power to deal with any demand that may be presented, for his authority is strictly limited to the rules prescribed ; he has not even the authority to act under an order of government sanctioning a payment, unless it is an express order to him to make the payment. With the District Officer he is responsible for the safe custody of moneys in the treasury. He examines the daily accounts, supervises the work of his subordinates, and sees that lists of payments and cash accounts are despatched on the specified dates to the Accountant General with all the necessary vouchers and schedules.

The Treasury Officer is personally responsible for wrong payments ; both he and the District Officer are responsible for all losses and embezzlements unless they show that they have taken every ordinary precaution, neglected none of the duties imposed on them and enforced observance of the rules on their subordinates.

The treasury office is divided into two parts, an accounts department in charge of an Accountant and a cash department in charge of a Treasurer. Where the Bank conducts treasury work, the treasury itself is not concerned with cash or resource arrangements. Otherwise great care is taken to ensure the security of moneys in the treasury.[1] The procedure adopted when money is paid into or out of the treasury will show us the part played by these two officials.

Those who have to pay into a treasury procure a challan which is in duplicate and bi-lingual, and gives the nature and the amount of the payment and the person or

1. Great care is taken for the safe custody of public moneys. Rules are prescribed for seeing that notes and coins are genuine and the chests well locked. The strong room is always under guard and locked with double locks, one key being with the Treasury Officer and the other with the treasurer. When the treasury opens for the day the strong room is opened to take out sufficient cash and currency notes for the day and then again double locked. This process is gone through every time more cash or notes are required or the treasury is closing for the day.

officer on whose account it is made. One copy of the challan will subsequently be returned to the payer as a receipt ; the other is required for treasury records. The payer gets his entries checked by the revenue departments, then takes the challan to the accountant who if it is in order initials it. Next the challan is presented to the treasurer who on the strength of the accountant's initials receives the amount and signs both copies of the challan in token of having received the money. The challan then goes once again to the accountant who on the strength of the treasurer's signature signs one copy which serves as a full receipt and enters the transaction in his accounts. As a check on the treasurer and the accountant all receipts for sums of rupees five hundred and over are also signed by the Treasury Officer.

When payment is needed the creditor presents a bill, giving full details as to the amount, nature, period of payment and other necessary particulars, to the accountant who receives it, enters it in his accounts and then lays it before the Treasury Officer, who in his turn if the bill is in order signs an order for payment on it. The bill then goes to the treasurer who pays out the money and stamps the voucher as 'paid'. After the daily closing the treasurer hands over the vouchers to the accountant. When a payment has been made by a cheque[1] drawn on the treasury, the accountant examines its validity and the Treasury Officer verifies it, and then only will the treasurer make the payment. The paid cheque then becomes a voucher.

When there is a branch of the Bank, the cash business of the treasury is conducted by the Bank[2]. In every district there are usually two or three sub-treasuries[3] in charge of the executive officers of the places where they are situated.

1. Certain departments are authorised to draw amounts by cheques ; the treasury records the lump sum payment but the detailed accounts are kept by the departments themselves.
2. The authority, however, on which receipts are accepted and payments made is that of the executive.
3. The sub-treasury is subordinate to the treasury of the district The working of a sub-treasury, however, is similar to the working of a treasury, except that the executive officer is also the sub treasury officer.

The sub-treasuries send their accounts to the treasury every day ; and these accounts as soon as received are examined and then posted in the treasury accounts.

At the end of the day the accountant prepares a balance sheet in a prescribed form, the treasurer draws up a balance memorandum giving details[1] of the balances in his hands. If the balance sheet of the accountant, after-making allowances for the balances of sub-treasuries and remittances in transit between two treasuries, agrees with the balance memorandum, the Treasury Officer signs the cash books and the balance sheets and the accounts for the day are closed. The Treasury Officer verifies the cash as shown in the memorandum, and locks it in the strong room which is then kept under a guard. At the end of the month again a balance is struck. The cash is verified by the Collector himself or by a senior officer if he is away from headquarters. Similarly the cash in the sub-treasuries is checked by the local officer in charge. Then an actual cash balance report for the whole district is drawn up with which the account balance is compared.

What we have seen so far concerns the procedure for making and receiving payments and safe custody of public moneys. We have now to consider the treasury from the accounting point of view. Every provincial treasury keeps two sets of accounts, one for the transactions of the Central Government, the other for provincial and other transactions. Similarly also the Bank keeps two sets of accounts. Central treasuries, however, keep only one set of accounts, provincial transactions being taken to suspense heads pending adjustment. Adjustments for transactions in the provincial set of accounts are made through the Accountant General and the C.A.S. of the Reserve Bank. The local branch of the Bank at the end of every day transmits to the Treasury Officer separate statements for central and provincial accounts with all the necessary supporting vouchers ; and a daily agreement is made at the treasury between the Bank's statements and the treasury accountant's books.

1. Whether notes or coins.

The treasuries keep the initial accounts but they do not render, except in Madras, classified accounts to the Accountant General. Every month the provincial treasuries send returns to the Accountant General of the province and the central treasuries to the Accountant General, Central Revenues. The Accountants General here act as the chief accounts officers of the provinces or other specified areas or of central transactions.

The returns consist of schedules of payments and receipts called List of Payments and Cash Account. All these returns are written up daily in the treasury from the accountant's books. The vouchers are carefully arranged, numbered and kept in safe custody. The schedules of payments are made in two parts, one for payments from the first to the tenth of the month and the other for the rest of the month. The first batch is sent to the Accountant General on the 11th of the month, the second together with the list of payments, the cash account and the cash balances report on the first of the following month.

Schedules are classified according to the department[1] to which they refer or to the class of transactions[2] to which they belong. Each transaction is recorded in sufficient detail to enable the accounts office to identify the voucher and make a preliminary compilation. The list of payments and the cash account show respectively the total payments made and receipts collected, during the month, either according to schedules or broad accounts classification. The cash account works up to the actual cash balance in the treasury on the last day of the month. These monthly schedules "represent the first stage in the compilation of public accounts, cover conjointly the whole of the public transactions in India including departmental accounts and debt and remittance," and may therefore be said "to constitute the primary fabric of the public accounts of India."[3]

1. e.g. transactions relating to income-tax or the railways.
2. e.g. deposit transactions.
3. Vide *Introduction to Indian Audit and Accounts*, para 141.

The treasury also applies the first check to all payments ; the Treasury Officer must see that they are in order,[1] for he must satisfy not only himself but also the Accounts Officer and even more the Audit Officer, that the claim is valid and that the payee has actually received the sum charged. This first check is not the one which the Auditor General is required to conduct by the Act nor what is called pre-audit. It is an initial audit, an internal check, one which any paying officer must exercise.

To see that the treasury keeps up a high standard in its working there is a periodical inspection by a gazetted officer from the audit office. The inspection report is sent to the Collector who reports on the action taken to the Audit Officer. If the Audit Officer thinks that the action taken is inadequate, the matter is brought to the attention of the Commissioner and, where necessary, of the Provincial Government concerned. In spite of these inspections the executive responsibility for the efficient working of the treasury rests with the Collector. Both the Collector and the Treasury Officer are responsible to the Accounts Officer in matters of accounts, and his instructions they are bound to obey. The Accounts Officer does not ordinarily interfere with the practical working of the treasury ; he constantly corresponds with the Collector for the removal of irregularities detected in the accounts and schedules submitted.

On grounds of economy at headquarters of the Provincial Government the Accountant General's office performs,[2] according as the Auditor General prescribes, all or part of the treasury duties for receipt and payment of moneys ; and so this is the second agency for the keeping of initial accounts. With regard to these transactions pre-audit exists, i.e. every receipt and payment is audited by the Audit Officer before the money is received or paid out.

1. That the claim is covered by general or special orders, that the voucher is in proper form properly drawn up, that it is signed and countersigned, if necessary, by the proper officers, that it is stamped if necessary, that the arithmetical calculations are correct, that the amount is in figures and in words, that there are no erasures, that all corrections and additions are attested by the drawing officer, etc.
2. Treasury Rule 6.

Initial Departmental Accounts

The third way in which initial accounts are kept is by the departments.[1] The departments make and receive payments from the treasury in lump sum through cheques ; and keep the detailed accounts themselves. These initial accounts are also called Subsidiary Accounts as they are subsidiary to the usual treasury accounts. The accounts organisation of the Public Works Department is sketched below as briefly as possible to serve as an example.

The P.W.D. of the province is divided into two branches, (*i*) Buildings and Roads, and (*ii*) Irrigation, each being in charge of a Chief Engineer who controls the Superintending Engineers. The Superintending Engineers are in charge of circles into which the province is divided for the administration of public works. Each circle is further divided into divisions in charge of Executive or Divisional Engineers and each division into sub-divisions in charge of Sub-divisional or Assistant Executive Engineers.

The divisional office is the accounts and administrative unit and corresponds to the treasury ; the sub-divisional office corresponds to the sub-treasury. At each divisional office there is an accountant who is a subordinate of the Accounts Officer but works in the Executive Engineer's office to check and compile the divisional accounts. He works under the supervision and responsibility of the Executive Engineer. The sub-divisional officer is in charge of a sub-division ; he corresponds to the executive officer in charge of a sub-treasury and is personally responsible for the accounts kept. He gets his funds by an advance or fixed imprest[2] or a drawing account according as the Divisional Officer determines. Towards the end of the month, as at the sub-treasury, the sub-divisional officer submits the cash balance report and copies of the cash book supported by vouchers to the divisional office. The latter may be submitted oftener in batches.

1. e.g. Public Works, Forests, Railways, Posts and Telegraphs and Defence.

2. A fixed imprest is a permanent advance which he can recoup on depletion.

The Divisional Officer is responsible for the accounts of the division ; he remits all receipts realised by his department as soon as possible in lump to the treasury and makes payments by means of cheques on the treasury. The Treasury Officer furnishes the Divisional Officer with a certificate showing the total amount of cheques paid during the month and submits the paid cheques to the Accounts Officer in support of lump debits in the list of payments. The Divisional Officer keeps the initial accounts through an accountant ; and at the end of the month the cash balance report and monthly accounts with the supporting vouchers are submitted to the Accounts Officer.

Classification and Compilation of Accounts

Classification and compilation are carried on chiefly by the Accounts Officers in the office of the Accountant General. Classification has necessarily to be very detailed as on it depends the accuracy and reliability of all subsequent compilations. The treasury makes a preliminary classification of items according to departments and heads of receipts and expenditure. Whatever cannot be so classified is marked as an 'unclassified item' and the classification is left to the Accountant General. The Accounts Officer checks the classification and rectifies all mistakes. He then prepares the Departmental Classified Abstracts described above[1] and simultaneously works out the progressive figures. Departmental accounts are submitted to the Accountant General in the form of such abstracts. All Classified Abstracts are carefully checked to see that there are no mistakes of classification of receipts and expenditure.

From the Classified Abstracts the Departmental Consolidated Abstracts are prepared, showing monthly progressive totals under major and minor heads, sub-heads and detailed heads. The Accountants General are required to see that every appropriation and even each unit of appropriation is not exceeded by the administrative authorities. Hence columns are also provided for progressive totals under

1. Vide Ch. IX, *System of Accounts.*

each sub-head of a grant or unit of appropriation, against which appropriation audit is conducted.

It is in the Accountant General's office that all adjustments in accounts[1] are made. As these are completed the Abstract of major head totals is prepared showing receipts and disbursements by major heads during the month. The closing cash balance of the government is worked out in the General Statement of Accounts and then reconciled with the balances shown in the treasury cash accounts and the statement of closing balances received from the Central Accounts Section of the Reserve Bank. The accounts for each month are completed by the 24th of the next month. The Accountant General submits monthly accounts to the Provincial Governments.

There are three annual accounts prepared by the Auditor General under the provisions[2] of the Audit and Accounts Order—the Appropriation Accounts, the Finance Accounts and the Combined Finance and Revenue Accounts. The Appropriation Accounts cover the items of expenditure specified in the authorised schedule for the financial year. The Finance Accounts showing both the annual receipts and disbursements under the different heads of accounts are more general; "they are an audited presentation of the general accounts of Government to the Legislature."[3] The Finance Accounts are divided into two parts: (*i*) General Finance Accounts, and (*ii*) Debt, Deposit and Remittance Accounts, each part giving the accounts and the audit report on it; and are authenticated by an audit certificate. The Appropriation and Finance Accounts of the provinces

1. Adjustment of transactions of one account circle in another are carried out (*i*) between a Defence or P. & T. Account Officer and a civil or non-civil Account Officer through Exchange Accounts; (*ii*) between Defence and P. & T. officers who have not been authorised to exchange accounts direct through a Central Adjusting Account; (*iii*) between province and province through Settlement Accounts and the agency of the Reserve Bank's C.A.S.; (*iv*) between the A.G., C.R., and Audit Officer of the Indian Stores Department through Adjusting Accounts between Central and Provincial Governments and the agency of the C.A.S.; and (*v*) between the U.K. and India through Accounts Current. All these are only book adjustments requiring slight differences in accounting procedure.
2. Paras 11 (4) and 12.
3. Account Code, Vol. IV, article 272.

are prepared by the respective provincial Accountants General and submitted by the Auditor General to the Governor for transmission to the legislature. The Appropriation Accounts of the Central Civil Departments and of the Posts and Telegraphs are prepared by the Accountant General, Central Revenues, and the Accountant General, Posts and Telegraphs, of the Railways and the Defence Services by the Controller of Railway Accounts and the Military Accountant General ; while the Finance Accounts of the centre are prepared by the Accountant General, Central Revenues. Both sets of accounts are submitted by the Auditor General to the Governor General for transmission to the legislature.

The Combined Finance and Revenue Accounts give a summary of the accounts of the centre and the provinces, particulars of their balances and outstanding liabilities, and other financial information as the Governor General may direct to be included. The form of these accounts is prescribed by the Auditor General with the concurrence of the Governor General. The idea of their publication is to present the accounts of all governments in India on a common and comparable basis. There is a short introductory note giving a general description of the structure of government accounts and a historical summary of the stages leading up to the existing financial and accounting system. Next come the General Accounts, first a general summary of receipts and disbursements of the different governments and then their classification by major heads. Thirdly, we have the Subsidiary Accounts with figures by minor heads. Distribution of expenditure between 'charged 'and 'voted' is shown in lump at the end of each relevant subsidiary account.

To summarise then, there are four compilations of accounts. First, the monthly compilation by district treasuries and certain departmental officers. Secondly, the monthly compilation by the Accounts Officers in India and England. Thirdly, the monthly compilation for the whole of India and for each province by heads of account. Lastly, a yearly compilation of a consolidated account for the whole of India by the Auditor General.

B. Audit

That the Auditor General should be entrusted with accounting functions is due to the peculiar combined system of audit and accounts that prevails in India. But in the sphere of audit the Auditor General, as his very name designates, must hold his own. Whether he keeps the accounts of a department or not he must by statute audit them.

The Auditor General and Audit

The Act provides for the appointment of an Auditor General of India by His Majesty and guarantees to him full independence from the executive by giving him the status of a judge of the Federal Court.[1] In order to ensure his complete detachment from the executive he is debarred from further service under the Crown in India after he has ceased to hold his office.[2] His powers and duties as regards audit, like those regarding accounts, are prescribed by the Audit and Accounts Order. He is required to audit all expenditure from federal and provincial revenues and ascertain whether there was sufficient legislative appropriation and executive sanction for such expenditure ; to audit debt, deposit and remittance transactions of the federation and the provinces, and trading, manufacturing and profit and loss accounts kept by order of the Governor General or the Governor in any department ; and to submit reports on the accounts, expenditure and transactions audited.[3] The audit of receipts and of accounts of stores and stock in any federal or provincial department and report thereon the Auditor General will undertake, only with the approval or on the orders of the Governor General or Governor, who for the conduct of such audit is empowered to make regulations[4] after consulting the Auditor General.[5]

The federation and every province has the obligation to supply free of charge to the Auditor General the annual budget estimates and any other publications issued by them which he may require for the discharge of his audit functions,

1. S. 170 (1). 2. S. 170 (2). 3. A.A.O., para 13 (1).
4. Vide Appendix II. 5. A.A.O., para 13 (2).

and also to give him such information as he may require for the preparation of any account or report which it is his duty to prepare.[1] He has the power to inspect any office of accounts in India under federal or provincial control ;[2] and may call for inspection at such places as he may appoint, any books or documents (other than those in the U.K.) relating to transactions which he must audit, though if the book or document is secret he must be satisfied with a certificate from the Governor General or Governor that the facts are correct.[3]

His duties and powers under the Act, whether bearing on accounts or audit, he may delegate generally or specifically to officers of his department, except, unless he is absent on leave or otherwise, the submission of any report that the Act requires him to submit to the Secretary of State, the Governor General or the Governors. From this provision are derived the powers and duties of the Indian Audit Department.[4]

As the Auditor General is also an administrative officer, the Governor General may appoint an independent officer to audit sanctions to expenditure accorded by the Auditor General, and the latter on his part must produce for inspection by that officer all books, documents and information necessary for audit.

If the Auditor General is responsible for audit, it is implied that the Auditor General has full powers to frame rules and give directions on matters relating to the audit of expenditure and other transactions, subject of course to the limitations given in the Order.[5]

1. Ibid., 16. 2. Ibid., 17. 3. Ibid., 18.

4. The Accountants General and other officers and establishment of the Indian Audit Department may perform all the duties and functions imposed on or undertaken by the Auditor General whether according to the Act or Order or Rules or executive arrangement, subject to the exception stated.

5. Hence the Audit Code and Manual derive their sanction from the A.A.O. The Audit Code is primarily for the accounts of the centre and the provinces, but applies *mutatis mutandis* to the accounts of any other authority which are audited by or on behalf of the Auditor General. The Audit Code contains all the essential audit directions by the Auditor General, the Audit Manual the less important instructions and regulations.

The Auditor General has to submit reports not only on the Appropriation Accounts[1] but also on the Finance Accounts[2] which are an audited presentation of the accounts of provincial and central transactions, including those of receipts and those relating to debt and remittance. These reports are submitted to the Governor General or the Governor who will cause them to be laid before their legislatures.[3] In these reports are included the reports which the Auditor of Indian Home Accounts has to submit to the Auditor General of India.[4]

The Auditor General has no statutory duty to keep the accounts of the Crown Representative, but he has the statutory duty to audit those accounts in India and the Auditor of Indian Home Accounts to audit transactions in the U.K. under the general superintendence, and on behalf, of the Auditor General, who must submit the audit report on the Crown Representative's accounts to the Secretary of State.[5]

The Auditor General is also required to audit and certify the accounts of the receipts and expenditure of the Federal Railway Authority when it is constituted,[6] and submit a report thereon to the Governor General.

In addition to his duties and functions relating to accounts and audit the Auditor General may be entrusted with other statutory duties as a result of his judicial status and knowledge of the financial position of the government. He may be required (*i*) to determine the amount of contribution payable by the Ruler of any Federated State to the federal revenues in lieu of levying corporation tax in such a State ;[7] (*ii*) to ascertain and certify the net proceeds of any tax or duty mentioned in Ch. I, Part VII of the Act or any part of such tax or duty in or attributable to any area[8] ; and (*iii*) to calculate the amount payable to or by the Government of Burma at the end of a financial year on account of the profit or loss attributable to the amount of Indian

1. Indicated in the A.A.O., para 13 (1) (i). 2. S. 169.
3. S. 169. 4. S. 170 (4). 5. 171.
6. S. 190 (1). 7. S. 139 (3). 8. S. 144 (1).

nickel and bronze coins passing into and returning from circulation in Burma.[1]

All the foregoing are the statutory duties of the Auditor General. S. 166 (3) has been held to be exhaustive of the means whereby duties other than those specifically mentioned in the Act can be imposed statutorily on the Auditor General. Hence neither the central nor provincial legislatures, nor the executive direction of a central or provincial authority can impose additional duties on the Auditor General otherwise than in connection with their respective accounts. But he may, by consent and on such terms and conditions as may be settled between him and the government concerned after consultation with the Governor General, undertake any additional duties.[2] Under this head comes the audit of accounts of the local authorities,[3] and of public or quasi-public bodies under the control of the Central and Provincial Governments.[4]

It has been provided, no doubt as a consequence of provincial autonomy, that the accounts and audit functions of the Auditor General in a province may be performed by a Provincial Auditor General,[5] who is also given independence and status, and is eligible for appointment as the Auditor General of India. In regard to accounts the Provincial Auditor General must follow the directions given by the Auditor General of India. Similarly for the audit of transactions in the U.K. affecting federal or provincial revenues provision has been made for an Auditor of Indian

1. Para 4, Part IV of the India and Burma (Burma Monetary Arrangements) Order, 1937.
2. Hence if statutory authority is required for such additional duties by the Auditor General the central or provincial legislatures may provide that the accounts of any specified public body shall be audited by the Auditor General during such time as the Auditor General with the concurrence of the Governor General consents to do so, and otherwise by some specified agency.
3. Local Fund Audit which is conducted in the same way as regards sanction, receipt and expenditure as other government audit.
4. On a consent basis, the Auditor General audits pension payments on behalf of certain colonial governments and Indian States ; with Burma there is a reciprocal arrangement between the two Auditors General to accept each other's audit.
5. S. 168.

Home Accounts,[1] whose appointment, powers and duties have been given in a previous chapter.[2]

Preliminary Considerations on Audit

It is both useful and convenient to deal with general principles before discussing special points connected with audit. The directions and rules made by the Auditor General in pursuance of his audit duties are given in the Audit Code.

1. Audit is concerned rather with regularity than with economy in the strict sense. Its purpose is to see that the executive in all its transactions satisfies the provisions of the law, that the administration carries out the orders of the executive, that both executive and administration carry out their financial functions with honesty and prudence. Audit is concerned with economy only in a negative sense, in that it must bring to notice wastefulness in public administration and infructuous expenditure. It is the executive that is responsible for enforcing economy in expenditure, for embarking upon a particular line of policy, for deciding upon the most economical means for achieving the ends it and the legislature have in view. Generally, however, the government welcomes suggestions for promoting economy based on information gathered from the accounts. These suggestions are made with discrimination and sparingly, and only by the Accountants General or the Auditor General, and if rejected by the government are not pressed further.

2. Audit has to verify that the accounts presented are accurate and complete, that all receipts and expenditure are properly classified, that all expenditure is further duly authorised and vouched for and that the final accounts present a true and complete statement of the government's financial transactions. All this is meant when we speak of an audit against regularity.

3. Audit functions, therefore, in a dual role, on behalf of the legislature to secure that the executive and the administration comply with the provisions of the law and the requirements of the legislature, and on behalf of the executive

1. Vide S. 170 and A.A.O., paras 20 and 21.
2. Ch. IV, *Departments and Officials in England.*

to see that the administrative officials comply with rules and orders that may be issued to them. Audit is not empowered to interfere with the administration, to frame financial rules or issue executive orders ;[1] but it has to verify that executive rules and orders satisfy the law, are free from audit objections and are properly applied.[2]

4. An auditor to discharge his responsibilities must be independent of the executive, for he has to examine the accounts of the executive. Hence the statutory provisions[3] giving the Auditor General independence[4] and status. Between him and the executive concordats[5] have been signed but these concordats, it is claimed, only regulate his independence but do not surrender it.

This independent position allows him the better to scrutinise accounts and transactions, make queries and observations bearing on them, and call for such vouchers, statements, returns and explanations as he may require for audit purposes ; but he may not make any independent inquiries from private individuals or the general public, for he has to call only on the executive for information. To act otherwise would be to encroach on the administration. In cases of difficulty the audit authorities confer with the executive as to the best means of obtaining the evidence required. Whether an objection should be pressed or dropped depends entirely on the discretion of the auditor.

5. Government audit is continuous. As the accounts for the month are completed they are sent for audit ; where the auditor also compiles the accounts they are sent, as we said

1. The Auditor General conducts a financial audit, and an administrative audit only in connection with the regulation of conditions of service of government servants, e.g. reservation of posts rules.
2. Audit has carefully to distinguish between auditorial and administrative functions and never encroach upon the latter ; the Auditor General has to refrain from ranging over the field of administration or statistics and offering suggestions how government may be better conducted.
3. Even the audit provisions and regulations in the Act and the A.A.O. are based on this presumption.
4. As regards accounts the Auditor General is in some respects under the executive.
5. Vide Ch. IX, *Audit, the Legislature and the Executive.*

before, in two batches by the treasury. Where the Auditor General compiles the accounts he undertakes an audit of classification of all transactions ; otherwise he conducts merely a test-audit, that is he chooses only some of the transactions for detailed scrutiny.

6. Most transactions are audited after they have taken place, and so ours is mainly a post-audit system, which may be compared to a post-mortem examination. The transactions, however, that take place in the provincial capitals are dealt with directly by the Accountant General who has every transaction fully audited before it is completed. This is called pre-audit, which obviously is not strictly in keeping with the purposes of audit.

7. One of the first duties of audit is to see that transactions are properly classified. The Auditor General as an accounting and an audit authority is responsible for securing that all entries in books of accounts conform to such forms, rules or directions as may be issued under S. 168, or agreements between governments for adjustments and incidence charges. The ultimate authority for classification, as has been remarked before, rests with the Governor or Governor General in consultation with the Auditor General. Audit, however, retains the right to criticise the validity of any such classification, which is inconsistent with the budget provisions or renders the accounts an incorrect or misleading representation of facts. In the matter of classification allocation of expenditure between capital and revenue is very important, as otherwise the financial picture will be entirely misleading. To live on capital as an escape from taxation is bad finance and leads to ruin. This point is dealt with in more detail later.

General Principles of Audit

The Auditor General conducts the audit of receipts, stores and stock, expenditure, debt and remittance, subsidiary accounts and appropriation accounts ; though audit scrutiny is not equally comprehensive with regard to each of them.

(*i*) One of the peculiarities of our audit system is that audit of receipts is not ordinarily a statutory function of the Auditor General,[1] and depends on the approval of the Governor General or Governor. Yet as the Auditor General is responsible for keeping the accounts of receipts he has from the accounts rendered to him to verify (*a*) that sums due are regularly received and checked against demand, and (*b*) that sums received are duly brought to credit in the accounts.

Audit of receipts to be complete ought to be applied at all the stages of revenue collection,—assessment, collection and remittance into the public account. Audit ought to see that the assessment is correctly fixed and that there are no defects in the methods of assessment generally, that sums due are received and checked against demand, that all remissions and suspensions are duly authorised, that the procedure for collection is sound, and that all the collections are brought into the account and paid into the treasury.

However, check against assessment and collection is generally entrusted to the revenue collecting authorities except in regard to the Railway, Customs, Posts and Telegraphs and Public Works Departments, where receipts are systematically audited under regulations[2] made by the Governor or Governor General. Check against remittance into the treasury is made by comparing the departmental records with the treasury accounts. To the large civil revenue-paying departments[3] audit sends monthly returns of amounts credited to their account in the treasury and the departments compare these returns with their own records. On the other hand the large non-civil departments[4] send the audit office information about their payments into the treasuries and the audit office compares this information with the treasury credits. This type of check attempts to prevent and correct errors and frauds of both the revenue departments and the treasury. The Auditor of Indian Home Accounts follows the British practice of completely auditing

1. Vide A.A.O., para 13 (2). 2. Vide Appendix II.
3. e.g., Land Revenue, Stamps, Excise.
4. e.g., Public Works, Posts and Telegraphs, Railways.

both expenditure and receipts. In India, in general, audit of receipts is perfunctory.

(*ii*) Audit of stores and stock is undertaken as a matter of course where the Auditor General has to audit the subsidiary accounts of government commercial undertakings, but otherwise, as with the audit of receipts, only with the approval or by the order of the Governor or Governor General. Stores and stock audit is conducted under regulations prescribed for the purpose.[1] Irregularity in the disposal of public stores is equivalent to an illegal appropriation of public money. In fact audit of expenditure of stores is obviously incomplete without an audit of the disposal of stores.

(*iii*) Audit of expenditure is the principal task of the audit office and is undertaken in detail. Audit examines every item of expenditure inquiring whether due provision of funds is authorised,[2] whether due sanction of a competent authority exists, whether the sanction conforms to the rules and orders prescribed, whether the rules and orders themselves are within the powers of the authorities prescribing them and not against the law, and in general whether they enable an effective scrutiny to be conducted, whether the expenditure in question is in keeping with the generally accepted standards of finance, whether the amount specified is arithmetically correct and whether it has been duly paid and brought into the accounts. We shall analyse each of these criteria and discuss their importance later on.

(*iv*) Debit and remittance audit is governed by the general audit principles applicable to receipts and expenditure. When there is a repayment, audit examines whether it is credited against the original receipt. As regards recoveries audit ascertains that the payment conforms to the authority which governs it and watches that the moneys are regularly repaid by the debtor. Audit reviews balances under debt heads and outstandings under remittance, and ascertains whether the parties, who owe it or to whom it is

1. Vide Appendix II. 2. Also called Appropriation Audit.

due, admit the correctness of the balances and how far they are really recoverable.

We may single out just three items, viz., borrowing, reserves and reserve funds and remittances for consideration. As regards borrowing audit sees that the statutory powers and rules[1] are not transgressed, that borrowings are kept within the limits fixed by the legislature from time to time, that conditions attaching to a loan are complied with, that the proceeds are properly brought to account and expended only on objects for which the loan was raised or to which borrowed moneys may according to sound principles of public finance properly be applied, and that adequate[2] amortisation arrangements are made specially for loans on unproductive works.

As regards reserves and reserve funds audit checks whether a proper classification has been made and whether transactions conform to the rules and orders framed for the administration of each fund by a competent authority, and verifies the balances in the fund at the close of the year. As regards remittances audit sees that debits and credits are cleared by receipts and payments in cash or book adjustments ; and scrutinises balances from month to month to effect their early clearance and determine the accuracy of the outstandings at the end of the year.

(*v*) The audit of the subsidiary accounts of government commercial undertakings by the Auditor General goes further than the practice of commercial auditors in the examination of sanctions and the regularity and propriety of financial transactions. One of the main objects of audit as regards these accounts is to present a full and true picture of the financial results on a commercial basis.[3] Audit must

1. As defined in S. 162 subject to S. 315, and in S. 163.
2. Adequacy is based (*i*) for unproductive expenditure on the period of maturity of the loan and the chances of growth of the particular type of unproductive debt and chiefly on the object of the borrowing (where a national asset is produced, the amortisation period should not exceed the life of the asset) ; and (*ii*) for productive expenditure on the net earning power and life of the asset produced.
3. In terms of commercial ideas of liability and asset, profit and loss, debit and credit.

verify that the cost as shown in the accounts is a true one. Audit also sees that subsidiary accounts are so prepared as to allow comparison of the relative efficiency of one government trading and manufacturing institution with another and with similar institutions not controlled by government. In the audit of commercial accounts the correct allocation of expenditure to capital and revenue, valuation of assets on a reasonable basis and adequate provision for depreciation and bad debts is very important, though not every practice of commercial audit is necessarily followed.[1] Audit has frequently to accept in government commercial undertakings the results of 'internal control', i.e. the continuous internal audit carried out by the staff of the concern itself by means of which the work of each individual is independently checked by a member of the staff. Hence audit must criticise the system of 'internal control' exercised by responsible officers. The extent of audit scrutiny will, therefore, depend on the adequacy of the system of 'internal control' and in the completeness and accuracy with which it is applied.[2]

The foregoing gives in brief outline the different aspects of audit ; however, as in everything else, it is not the letter of the rules and regulations but the spirit in which they are enforced that matters. Audit must be intelligent and critical, without being censorious ; it must "ask every question that might be expected from an intelligent tax-payer bent on getting the best value for his money."[3]

AUDIT OF EXPENDITURE

In this section the functions of audit with regard to expenditure are considered in some detail.

1. Owing to the difference between government and private commercial undertakings. The state has, e.g., no necessity to provide income for owners or dividends for shareholders, a government undertaking is comparatively permanent, etc.
2. For new commercial concerns the Accountant General will represent to government the desirability of requiring offices to devise systems of accounts and standing orders to regulate the working of the concern and submit the system and orders for audit scrutiny.
3. Quoted in *Introduction to Indian Government Accounts and Audit*, article 350.

Attention has already been drawn to the great importance of correct classification of all items and the part played by the audit authorities in checking the preliminary classification of treasuries and departments before attempting any compilation of the monthly accounts. Here then we deal with one of the most essential, though at times not easy, rules for sound finance, namely a careful allocation of expenditure between capital and revenue.[1] This allocation is extremely important in government commercial undertakings or else the cost of the service or undertaking will not be accurately determined. Whether expenditure should be financed from current revenue or borrowings is for the executive and the legislature to decide. The task of audit is to bring to notice occasions on which the classification between revenue and capital or distribution between revenue and loans appears to be against sound and prudent financial administration.

Capital expenditure is broadly defined as "expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities."[2] These concrete assets may be productive or unproductive, revenue producing or otherwise, a productive asset being one which "produces sufficient revenue to afford a surplus over all charges relevant to its functioning."[3] In considering whether expenditure is of a capital nature or not, audit is careful to see that capital expenditure does not merely replace one set of recurring payments by another,[4] that the asset produced belongs to the authority incurring the expenditure and that it is not expenditure on a temporary asset.

Under capital expenditure on a scheme come all charges for the first construction of a project and for intermediate maintenance while not yet opened for service, and also charges for such further additions and improvements as are sanctioned by competent authority. Revenue bears all subsequent charges for maintenance and all working expenses,

1. Vide Appendix V. 2. Vide Audit Code, article 34. 3. Ibid.
4. e.g. commutation of pensions and increase in debt charges.

e.g. working and upkeep, renewals and replacements, and such additions as are debitable to the revenue account. When, however, renewal and improvement partake both of a capital and revenue nature, then the allocation is made by rules and formulae devised by the executive. These rules are so framed that there is an equitable distribution of burdens between present and future generations. During the construction of a new project, interest on moneys for that purpose, though debitable to capital, are met from revenue, unless these interest payments would unduly disturb the government's budgetary position. And in the latter case writing back of capitalised interest is a first charge on any capital receipts or surplus revenue obtained later. Capital receipts, in so far as they relate to expenditure previously debited to capital, accruing during the process of construction are utilised to reduce expenditure ; thereafter they are treated differently in different departments, but in general are never credited to the ordinary account of the undertaking.

In government accounts the fact that expenditure is classified as capital is a *prima facie* justification for keeping it outside the revenue account. Yet capital expenditure may be financed from revenue and then such expenditure is accounted for separately[1] under the appropriate major heads within the revenue account. Capital expenditure outside the revenue account may be financed from (*a*) borrowings either specifically for a particular purpose or generally for all government purposes or unfunded, and (*b*) sources other than revenue and borrowings, e.g. accumulated balances.

Before the introduction of provincial autonomy the Secretary of State prescribed the principles[2] on which capital expenditure was charged to borrowings. The provinces

1. To enable accounts to be prepared according to commercial principles, e.g. regarding the railways and the posts and telegraphs.
2. These were (*i*) that the works were productive, (*ii*) that the expenditure was in a commercial department which was working at such a profit as to fulfil the test of productivity enforced by the Secretary of State, (*iii*) that the expenditure was on commercial undertakings whose accounts were kept on a commercial basis. Otherwise the expenditure had to be so large (over Rs. 5 lakhs on a work or group of works) that it could not reasonably be met from current revenues.

being now autonomous, it is for the Provincial Governments to lay down the conditions they deem proper for this purpose in agreement with their legislatures, but these conditions may well be expected to conform to the principle enunciated by the Government of India in their Despatch on the Constitutional Reforms of 1919 : "Two conditions must be fulfilled before it would be justifiable for the Government of India to spend loan funds on unproductive purposes. These are : firstly, that the objects for which the money is wanted are so urgent and vital that the expenditure can be neither avoided, postponed nor distributed over a series of years, and secondly, that the amount is too great to be met from current revenues." In general the cost of comparatively small schemes, whether productive or unproductive, ought to be met from revenue. Audit has, therefore, to exert its influence by discouraging any tendency to secure relief from taxation by the expedient of transferring items doubtfully classifiable as capital from the revenue section of the budget to sections outside the revenue account. And as a corollary, audit must see that revenue from taxation and other sources is sufficient for covering expenditure debitable to it. Otherwise debit to borrowings will be merely disguised, as borrowings will be utilised for covering revenue deficits.

Hence in connection with the allocation of expenditure between capital and revenue, and the classification of capital expenditure within or without the revenue account, audit duties are (*a*) to see that commonly accepted accounting or commercial principles are not infringed, (*b*) to verify that the accounts exhibit the true financial facts, and (*c*) to bring to notice transgressions of generally accepted principles of public finance. The final decision on classification, however, rests, it must not be forgotten, with the Governor or Governor General after consultation with the Auditor General.[1]

Another consideration of importance in classification is whether the expenditure is from reserves or reserve funds.

1. Accountants General are advised to consult the Auditor General in cases of doubt before passing any opinion as both classification and accounts often involve difficult questions of policy.

As government accounts are on a strictly cash basis, the unspent amounts of grants for a year lapse at the end of the year. Reserves and reserve funds are a device to prevent their lapsing, a device to which, because it is approved by the legislature, audit cannot object. Reserves or reserve funds[1] are constituted by the government under statutory provision or otherwise with the object of spending moneys accumulated in the funds for the particular and specific purposes for which they are constituted. The procedure of accounting for transactions pertaining to such funds is ordinarily determined by the procedure followed in budgeting.

Expenditure from these funds is regulated as follows : if the grant is by another government or outside agency which retains full control over it, then expenditure from it cannot enter the ordinary revenue and expenditure estimates nor is it subject to the vote of the legislature. It is taken as a direct charge against moneys held in the deposit section of the accounts. If the grant is by a government for itself, then the expenditure requires to be voted only once.[2] Lastly expenditure from a fund is always shown in the appropriation accounts of the government incurring it, unless some measure of control is exercised by an outside authority ; and if in the appropriation accounts, then necessarily in the estimates.

Audit against Provision of Funds or Appropriation Audit. The Audit and Accounts Order[3] gives the essential

1. Reserves may be classified according to the sources from which they are fed : (*a*) funds from grants from another government, perhaps aided by public subscriptions, e.g. the fund formed from subventions from the Central Road Fund or Fund for Economic Development of Rural Areas ; (*b*) funds from sums set aside by a government from the revenue of a year or series of years for expenditure to be incurred by itself for a particular purpose, e.g. the Depreciation or Renewals Reserve Fund in commercial departments and undertakings ; (*c*) funds from outside agencies to Central or Provincial Governments, e.g. the deposit account of grants made by the Imperial Council of Agricultural Research or Indian Central Cotton Committee.
2. e.g. if an allotment is voted from revenue to a Depreciation Fund no fresh vote is necessary for actual expenditure on renewals and replacements. This principle of a single vote is not a vital principle, though it reduces complications and is legal ; its adoption is to be settled by agreement between the executive and the legislature.
3. Para 13 (7) (i)

conditions relevant to every item of expenditure : first, that there is provision of funds authorised by a competent authority fixing limits within which expenditure can be incurred—audit against provision of funds ; secondly, that expenditure that is incurred conforms to statutory provisions and to any other financial rules and regulations framed by a competent authority—audit against regularity which includes scrutiny of the executive rules and orders themselves ; thirdly, that there is proper sanction, special or general, of a competent authority authorising expenditure —audit of sanctions to expenditure ; fourthly, that broad and general principles of sound finance are not transgressed —audit against propriety. We shall take each in turn.

The first duty of audit is to see that all expenditure has been incurred for the purposes and within the amounts specified in the schedule of authorised expenditure. Now the grant or appropriation in the schedule is a single lump sum for a major head of expenditure. But the estimates show the particulars on which this sum has to be spent. The detailed estimates, therefore, indicate the purposes for which the grant or appropriation is made. Consequently audit records expenditure against the appropriate grant and the sub-head of the grant. Expenditure that exceeds the grant or appropriation, or does not seem to fall within its scope or intentions, will be treated as unauthorised expenditure, unless regularised by a supplementary schedule of authorised expenditure.

Further the grant or appropriation is for the whole year, and for all the charges, even the liabilities of past years, to be met during the year. The progress of expenditure needs to be watched ; and audit assists the executive by bringing likely excesses to the notice of the disbursing officers and the controlling authorities, and by seeing that adequate arrangements are made in every department for the control of expenditure.

The executive is responsible for keeping expenditure within the grant. The executive or subordinate authorities may, however, according to their powers sanction a

re-appropriation[1] from one head of account to another within the same grant or appropriation, but before the expiry of the financial year. When there is a re-appropriation, audit must see that there is an order issued by competent executive authorities to cover it.

Audit against Regularity. Audit verifies that expenditure conforms to the relevant provisions of the Act and Orders in Council, and all financial rules, regulations or orders issued by a competent authority. For example, audit must see that no burden of expenditure is imposed on the revenues of the federation or provinces except for the purposes of India or some part of it,[2] that expenditure is duly authorised by the Governor General or Governor,[3] that powers retained absolutely[4] by the Secretary of State are not usurped by any authority in India, and, if usurped, compel a reference to the Secretary of State, that financial provisions[5] relating to estimates, classification and the schedule of expenditure are implemented, that the financial rules and orders[6] of the government, made chiefly by the Finance Department, are followed by the administrative authorities. This work is of a quasi-judicial character as it involves the interpretation of schedules, rules and orders ; however, the final interpretation does not rest with the Auditor General except for rules made by himself. Audit bases its interpretations on the plain meaning of the section ; if any uncertainty appears, audit must refer it to the competent authority[7] for resolution or removal.

Audit against regularity implies, as a corollary, the scrutiny of rules and orders issued by the executive authorities, i.e. audit must see that those orders and rules may be

1. Provided, however, that the expenditure falls within the scope or intentions of the original grant or appropriation.
2. S. 150 (1). 3. Vide financial provisions in the Act.
4. Vide Part X of the Act.
5. Ss. 33-36 and 78-81 and S. 67A of the Ninth Schedule.
6. Rules and orders may (1) regulate powers to incur expenditure and sanction revenues, (2) deal with the procedure for making payments or safe custody of moneys or other financial transactions of the government, and (3) regulate conditions of service, pay and allowances or pension of government servants.
7. The authority specified either in the Act or by the executive.

lawfully issued by such authorities[1] and that they are effective for the purposes of audit that is conducted. As these orders and rules are scrutinised by the finance and other departments, audit does not carry out a detailed or rigid examination.[2] But wherever the efficiency of financial control is impaired seriously, e.g. if the principle of authorising disbursing officers to sanction special charges is carried too far, audit must refer the rule or order to the Finance Department which will then have an opportunity of reviewing it.

Audit against Sanctions to Expenditure. It is obvious that it is not enough for audit to see that every expenditure is covered by sanction ; it must as carefully see (*i*) that the authority sanctioning expenditure derives its power by statute or by delegation from another competent authority, and (*ii*) that the sanction is definite, thus necessitating no reference to the sanctioning or higher authority. This type of audit is very important, because if the power of the sanctioning authority is defective, all expenditure under its sanction will be irregular.

For the purpose of this audit copies[3] of all orders sanctioning expenditure or to be enforced in audit, are sent to the Audit Department, directly by the administrative departments for all financial sanctions and orders within their own financial powers, otherwise through the Finance Department or the financial agency attached to the department.[4] This endorsement is taken to mean that the Finance Department has examined the order and accepts full responsibility for it. If not communicated through the Finance Department,

1. In other words that they are not *ultra vires*.
2. Audit sees that they (1) are not inconsistent with any provisions of the Act or Order, (2) are consistent with the essential requirements of audit and accounts as determined by the Auditor General, (3) do not conflict with orders or rules by a higher authority, (4) that the issuing authority has the necessary rule-making powers. Rules passed by the Governor General under statutory powers or otherwise are usually scrutinised by the Auditor General himself ; rules by the Provincial Government by the Accountant General concerned.
3. Procedure for communicating these is governed by the Rules of Business.
4. Financial Commissioner, Railways ; Financial Adviser, Military Finance ; and Finance Adviser, Posts and Telegraphs.

an order may be challenged by audit on grounds of propriety or sanctions.[1]

Audit against Propriety. Again, it is not enough for audit to check mere compliance with rules and orders. It must bring to light any matter which appears to involve improper expenditure or waste of public money or stores. It must examine expenditure by disbursing and sanctioning authorities on the basis of the broad general principles of finance. Hence there are no fixed rules for audit against propriety. "Its object is to support a reasonably high standard of public financial morality; of sound financial administration and devotion to the financial interests of the State."[2] The Auditor General's Rules[3] under the 1919 scheme laid down a few "canons of financial propriety." There are no such statutory canons now; but audit may challenge expenditure as transgressing 'a universally accepted standard of official conduct or financial administration.' These general principles,[4] whose meaning and importance are obvious, are as follows:

1. *The expenditure should not be* prima facie *more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.*

2. *No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its*

1. Audit of sanctions is conducted on the following principles: (*i*) if the sanctioning authority has full powers, a sanction under these powers can be challenged by audit only on grounds of propriety; (*ii*) if the powers are subject to certain given criteria, then on the ground that the disregard of the criteria is serious as to make the sanction perverse or that the facts of the case show that one or more criteria have been disregarded; (*iii*) if the powers granted are in precise terms, the sanction must follow them in every detail; (*iv*) a group of works which forms one project, for purpose of financial sanctions, is considered as one work; and financial sanction of a higher authority is necessary for the project even if each particular work does not require it; and lastly, (*v*) audit holds under objection any expenditure on any item which requires the sanction of a higher authority until that sanction is obtained.

2. Audit Code, article 85.

3. Made by the Secretary of State under S. 96D (1).

4. Audit Code, loc. cit. supra.

own advantage.

3. *Public moneys should not be utilised for the benefit of a particular person or section of the community unless (i) the amount of expenditure involved is insignificant, or (ii) a claim for the amount could be defended in a court of law, or (iii) the expenditure is in pursuance of a recognised policy or custom.*

4. *The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole sources of profit to the recipients.*

Works Audit. To complete the different kinds of audit a word or two must be said on works audit because a considerable amount of expenditure, over a hundred crores, is devoted to public and civil works. For every project four stages must be gone through. First, there must be administrative approval. The design is, therefore, prepared in consultation with and must be approved by the authorities for whom it is made. Their approval is a sort of order to the P.W.D. to execute certain works at the approximate cost stated. The second stage is the sanctioning of expenditure required for the scheme, and very often the previous sanction of the Finance Department is required for a project. The third stage is the preparation and sanction of the detailed estimates of the project and this is called a technical sanction. Lastly, there must be a grant or appropriation or allotment or re-appropriation authorising expenditure to a certain specified extent for the financial year. For large construction projects special accounting and audit rules are prescribed, so as to ensure adequate financial control and check. Ordinarily, audit is conducted in three stages : (*a*) preliminary audit by the Divisional Accountant in the divisional office. He exercises all the checks a primary auditor is expected to exercise.[1] (*b*) The audit in the audit office which is conducted with reference to the sufficiency of the authority for incurring the expenditure, the accuracy of classification, proof of payment to the correct individual, and the canons of financial propriety. (*c*) Lastly, the test audit at the periodical inspection of the divisional office.

From the foregoing it will be clear that expenditure is subjected to very detailed audit scrutiny. Audit has no

1. e.g. classification, arithmetical accuracy, sanctions, etc.

administrative power to stop a payment, for payments are a responsibility of the executive. But it can conduct a careful examination[1] of every item of expenditure at every stage from the provision of funds and first sanctions down to the record of the transaction in books of accounts.

Audit Inspection and Local Audit

It is on the accuracy of the original data and the initial accounts that the superstructure of accounts and audit is built. Most of the original records are kept in the offices where they originate. Hence the need for the Auditor General to inspect accounts offices and treasuries.[2]

The objects of audit inspection are, therefore, first, to verify that the initial records and accounts are properly maintained in the prescribed form and that financial rules and orders are being faithfully carried out, and secondly, to test the degree of care exercised by the departmental accounting authorities over the accuracy of original records.

Local audit differs from inspection in that its purpose is to audit the initial accounts kept by government institutions and offices on the spot. Hence local audit does not confine its attention to the purposes of audit inspection, but conducts a test audit in sufficient detail to verify the accuracy and completeness of the accounts according to the prescribed rules.

1. To summarise then we may say that the objects of the audit of expenditure are to ensure (*i*) that provision of funds for the expenditure is duly authorised by a competent authority, (*ii*) that the expenditure is backed by a proper sanction and incurred by an officer possessing the necessary powers, (*iii*) that all prescribed preliminaries (such as proper estimates framed and approved by a competent authority) to expenditure are observed, (*iv*) that expenditure sanctioned for a limited period is not admitted in audit beyond that period without further sanction, (*v*) that the procedure for making a payment is duly observed by the disbursing officer, (*vi*) that the claims are according to rules and in proper form, (*vii*) that the payment has in fact been made to the proper person, and so acknowledged and recorded that a second claim against government on the same account is impossible, (*viii*) that the charge is correctly classified, (*ix*) that the rates paid for work done or supplies made are according to any prescribed scale or schedule, (*x*) and lastly, that the payments have been correctly brought into the accounts.—Vide Audit Code, article 86.
2. Power to do so is given by the A.A.O., para 17.

With regard to treasuries only inspection is applied with a view to assist the revenue authorities in establishing a system of treasury working strictly in accordance with the rules, and to see that the treasury rules are understood and observed.

The Inspecting Audit Officer does not confine himself to routine and inspection work; but takes the opportunity to assist the departmental officers and accountants with his advice on accounts, the budget, the the financial regularity of transactions, etc., and even to offer suggestions bearing on the economy of public money,[1] in particular to see that there is no superfluous clerical work connected with accounts and audit. The Inspecting Audit Officer is, however, concerned with the accuracy of accounts and regularity of financial procedure than with administration.

The results of inspection are set forth in Inspection Reports giving the more important defects of procedure and financial irregularities noticed, and a brief description of the general state of the accounts and the nature of the financial control over transactions. The Inspection Report is completed only after the head of the office has had the opportunity to read and discuss it with the Inspecting Officer. The report is brief but the points raised are pursued till finally settled.

RESULTS OF AUDIT

It is obvious that audit is valuable only in so far as the results of its investigation are placed before the appropriate authority, so that action may be taken to rectify an impropriety or irregularity, where possible, or at least to prevent a recurrence of it. The appropriate authority may be a departmental officer or the government itself or in the last resort, in accordance with the 'Concordats',[2] the legislature through its Public Accounts Committee.

1. e.g. chronic delays in measuring work done or making payments after measurements have been taken, such delays being presumed to enhance rates; inviting competition among contractors; defects in arrangements for contracts; examination of authorised Schedules of Rates; leakage of the revenue budget; untapped sources of revenue; want of attention to economy.
2. Vide below Ch. IX, *Audit, the Legislature and the Executive.*

The results of audit investigation are made available through the raising and pursuing of objections, and audit reports. If the objections are satisfactorily removed, then they are not usually pursued further. In raising and pursuing objections the auditor must necessarily possess a keen and sympathetic understanding, a balanced judgment and a sense of proportion to assess the importance of an individual irregularity.

The responsibility for the removal of objections and settlement of other points raised in audit devolves on the disbursing officers, heads of offices and controlling authorities. The Accountant General maintains a careful and constant watch over objections ; so as to keep the controlling authorities fully acquainted with individual cases of serious disregard of financial rules and to assist the Finance Department[1] to maintain financial regularity[2] and a proper system of accounts. Unless the objections are pursued intelligently, promptly and vigorously, the audit reports will not have their full value.

Audit calls attention to improper disbursements; it is the duty of the executive to order recovery of the amounts. However, the Accountant General directs the recovery of sums improperly disbursed in accordance with a convention between the executive and audit authorities. If an executive authority desires to forego recovery, then audit may require it to furnish the requisite sanctions, and these sanctions may be criticised on grounds of propriety or other reasons. When the Finance Department[3] waives recovery of amounts

1. If government so desires the Accountant General prepares abstracts of outstanding objections for submission to the Finance Department or any other authority that may be specified.
2. When erroneous payments have been admitted in audit, owing to a wrong interpretation of a financial rule or to oversight, the new interpretation takes effect from the date of issue.
3. When an objection is not adjusted by executive authorities or administrative departments, the A.G. reports the complete facts of the case with his own views to the Finance Department for orders. Ordinarily the A.G. acts according to the decision of the Finance Department, except when the concordat permits an open and final questioning, in which case the A.G. is expected to seek the advice of the Auditor General.

improperly disbursed, their orders can be challenged only if permitted by the relevant concordats.

To save time and trouble over petty sums the Audit Officers have powers delegated to them by the central and provincial governments by which they may waive[1] audit objections under certain conditions. The Audit Officers are expected to exercise these powers freely but with discretion.

All cases of financial irregularity are not reported to the Auditor General, unless the Accountant General wants his advice in a case of doubt and difficulty or there are interesting and serious cases of fraud and forgery or other cases which indicate the need for a change of procedure. Whenever there is a loss or defalcation, the Accountant General calls for such further information as he may require on the subject to determine whether the defalcation was due to any defect in the rules, or to neglect of rules or want of supervision on the part of treasury or other authorities. He then reports the result of such examination to the authority competent to write off the loss, unless for any special reason he considers that the government concerned should be informed.[2]

Audit reports are the means by which the results of audit are made available to the legislature[3] and the public. Mention has already been made of the appropriation accounts and finance accounts and the audit reports[4] thereon. Not all

1. e.g. a gazetted officer in charge of a section may forego recovery of irregular expenditure up to a limit of rupee one in any individual case ; a Dy. A.G. up to Rs. 5|-. Similarly if expenditure is not unjustifiable in itself, but is not exactly covered by rule or has insufficient authority or full proof of payment has not been produced, the A.G. may forego recovery in such a case up to Rs. 50|- provided that the expenditure is not of a recurring nature, that the sanction would be forthcoming and that undue trouble would be caused if full proof were required to be produced.
2. If there is any loss for which the Reserve Bank may be liable to government, then the report of the examination is sent to the Finance Department concerned.
3. Ss. 38 (1) and 84 (1), and S. 67 (1) of the Ninth Schedule.
4. Appropriation and Finance Accounts are given separately for each government. Audit Reports on Central Appropriation Accounts are in 4 parts : (*a*) Defence Services, (*b*) Posts and Telegraphs, (*c*) Railways till the Federal Railway Authority is established, and (*d*) Civil, that is for all the other government departments.

the appropriation accounts are prepared by the Auditor General, but the finance accounts are ; in either case he must prepare the reports on them. Appropriation reports contain comments on the regularity and propriety of expenditure, the results of the audit of government commercial accounts, and where required of stores and stock. They are prepared according to the terms and spirit of the concordats, and deal with those matters which come within the ordinary meaning of appropriation accounts which will be examined by the Public Accounts Committee.

Audit reports on finance accounts deal with the financial results shown by all the different accounts of receipts and outgoings and other data.[1] They supplement the appropriation accounts reports. Both sets of reports are very important and therefore receive the personal attention of the Accountant General.

The audit report on appropriation accounts is self-contained and prepared in a strictly detached, dispassionate and technical attitude without any expression suggesting any political opinion or bias. The report must, on the one hand, show the government the extent to which its subordinates are complying with its rules and orders, and even suggest directions in which these may be modified ; and on the other, show to the legislature how far its expressed views have been complied with by the government and how far moneys were regularly and properly spent. For the latter purpose, therefore, the reports subject to the concordats deal with important financial irregularities[2] as well as cases of losses, writes-off or nugatory expenditure. Some of the points will consequently deal with notable changes in the arrangement of grants, the completeness and accuracy of accounts, excesses of expenditure over grants and appropriations, expenditure not in accordance with the instructions of the

1. e.g. revenue and capital accounts, accounts of public debt, of liabilities and assets as deduced from the balances recorded in the books and other information.

2. e.g. deficiencies of sanction, failure to enforce and respect rules of procedure, offences against universally accepted standards of official conduct or financial administration.

legislature or which indicates grave faults in the administration of grants and appropriations, important changes in the extent or character of audit of any class of transactions, irregularities connected with grants in aid, etc.

Every irregularity is commented upon clearly, accurately and in plain language[1], so that even a person not versed in the details of accounts may understand and appreciate its significance[2] in the financial interests of the state. Besides, comments are confined to matters of real or practical concern to the legislature, individual cases being mentioned only if they are very serious and important, and petty cases only if their cumulative effect is appreciable. Usually irregularities which have been rectified are not mentioned, unless there is a substantial point to be made. Hence the advantage to an executive officer in settling audit objections promptly. Secondly, cases *sub judice* are not to be mentioned in such a way as to prejudice the claim or defence in court. Thirdly, no point relating to the salaries and allowances of the Governor General and Governors and to their respective offices, may be mentioned. In order to give government a chance of making their observations and comments on important cases of irregularity, the Accountant General reports all such matters to them, and in particular submits drafts of all matters in which the action of the Finance Department is questioned.

Audit does not usually comment[3] on the adequacy of disciplinary action taken unless in a series of cases, occurring more or less continuously, it has been obviously and extremely lenient, or when there is marked difference in the standards of disciplinary action observed by different departments.[4]

1. Technical expressions, if used at all, are explained.
2. Hence : (*a*) the transaction must be explained, (*b*) the nature and magnitude of the irregularity described and any extenuating circumstances given, (*c*) as also whether there is any defect in the system which led to the irregularity, and (*d*) whether remedial or preventive measures were adopted and the adequacy of these measures.
3. While not absolutely precluded from it.
4. Facts of the disciplinary action may be stated. Adequate supporting evidence must be brought forward.

As the finance accounts are an auditor's presentation of the accounts of the government to the legislature, the report on it is also in a just, impartial and detached spirit having nothing by way of financial appreciation or blame, nor even an opinion, financial or otherwise, on the merits of financial administration of the government save in exceptional circumstances. It is a report on completed accounts; but if after completion of accounts certain facts affecting the financial position have become common knowledge they may be mentioned incidentally. The report deals with revenue[1] and expenditure, makes observations on capital major heads, exhibits the debt position of government by a simple consolidated statement[2] and reviews various balances under debt and remittance heads.[3]

The Finance Department has the duty of considering the recommendations of the legislature and the Public Accounts Committee arising out of the audit reports and their findings ; it has to inform the Accountant General concerned and the Auditor General of the action taken. It has also to communicate to the Accountant General all rules passed by the government on these recommendations. The Accountant General who is responsible for the initial preparation, watches the action taken on the report, and if he has any doubt whether a particular question or report has been adequately dealt with by the Public Accounts Committee or the legislature or the Finance Department, he must seek the advice of the Auditor General for further action on it.

Spirit of Audit

We have already mentioned above the spirit in which the auditor must raise and pursue objections. It is not mere bones but flesh and blood that make a man ; hence it is not merely codes and regulations and meticulous attention to

1. If extraordinary receipts are considerable and seem to be continuous, this feature should be elucidated.
2. Technical observations are made regarding the magnitude of debt, amount of revenue required to meet its service, amortisation, etc.
3. The object is to show a complete enumeration of balances under these heads and review the current state of accounts under each head.

detail but the true spirit of audit work that makes an auditor. He has always, no doubt, to keep before his mind his primary functions of securing the substantial correctness of the accounts, and the regularity and propriety of individual financial transactions. As a consequence it is for him to decide after completing his detailed scrutiny, whether to require regularisation and correction in an individual case or merely to be satisfied with prevention of error and irregularity in the future. In these decisions his discretion will be guided by the general principles of audit ; he must remember at all times that though financial rules and orders must be observed, mere rigid and literal enforcement of the regulations may degenerate into wholly unintelligent audit.

Hence the auditor is expected to avoid insistence on trifling errors[1] and technical irregularities, and rather to devote more time and attention to really important and substantial irregularities. On the other hand, the auditor must guard against failure on his part to appreciate the significance of what appears to be trifling, for that failure may lead to his overlooking an important fraud or defalcation. Besides while trifles and petty errors may be negligible in themselves, their cumulative effect may be very important and serious. They may indicate carelessness and inefficiency in the maintenance of accounts or in financial administration generally.

To steer clear between this Scylla of ignoring tremendous trifles and that Charybdis of unintelligent literal interpretation is the very difficult task of the auditor. To be judicial and judicious is not by any means easy. The auditor requires considerable experience in interpreting rules, although he is greatly helped by a number of codes which are framed by the crystallisation of departmental case-law over a long period of years. The auditor must follow the actual words in the codes, though a mere attention to detail will not serve to prevent, what is audit's

1. For this reason Audit Officers have been given the power to waive audit objections where petty sums are concerned.

fundamental purpose, the tax-payers' money from being spent irregularly and wastefully. The rules are certainly laid down ; but they are not ends in themselves but means to an end.[1]

Where there is a conflict between the letter and the spirit of the rule, the auditor must follow the spirit of it by getting at the real intention behind the rule. Whenever the auditor has difficulty in interpreting a point, he should refer the matter to a higher audit authority. Unless audit has the right spirit, much time and trouble will be lost and unnecessary friction engendered over trifles ; unless there is the right spirit, too, audit comes to have a bad name and the auditor is considered as one whose business is to put spokes in the wheel.

Discretion has to be exercised by the Audit Officer. The clerk carries out detailed audit and applies the rules strictly. When this has been done, the Audit Officer exercises his discretion whether objections according to the strict letter of the law ought to be raised.

In all his correspondence on audit matters with the executive the Audit Officer has to be courteous and impersonal in his language, clear and intelligible on the issue raised. Criticism must be accurate, fair and dispassionate. Innuendo is strictly forbidden.

The auditor has responsible though unpleasant functions, and he must assist government to exercise financial control. But he will never assist government by creating the impression that he is far more willing to apply strict rules than assist in other ways. Audit must not only point out the mistakes ; it must also indicate how they may be rectified and in future avoided. He must be critical and constructive, he must investigate as well as educate.

C. Criticism

So far we have dealt with the principles and practices of government audit and accounts and the responsibilities

1. Audit may relax formalities ; it ought never to relax essentials.

of the audit and accounts organisations. It remains now to examine the relations of audit with the state organs and officials, the peculiar 'combined system' prevailing in India and the experiments in connection with the separation of audit from accounts, and finally to assess the efficiency of audit.

AUDIT, THE LEGISLATURE AND THE EXECUTIVE

The Auditor General of India is not the direct agent of the legislature. Yet he carries out the audit of the grants voted by it and of the appropriations made by the Governor General or the Governor; and assists the Public Accounts Committee personally or through his subordinate officers in the examination of the reports on the Appropriation Accounts. As long as the power of the central legislature is limited, the Auditor General will not have that direct access to it which will make audit a more powerful weapon for the purpose of financial control on the part of the legislature—an instance of a constitutional limitation affecting the system of financial administration.

The Secretary of State for India retains the power of issuing or amending rules relating to certain Services. All infringements on the powers retained absolutely by the Secretary of State are objected to in audit and the Auditor General has the right to compel a reference to him in all such cases. But if the Secretary of State has delegated any of these powers to authorities in India, audit treats those powers as belonging to those authorities in their own right.

The Secretary of State also exercises control to some extent through directions issued under S. 14 of the Act. But the responsibility to see that such directions, when they are of a financial or quasi-financial character, are observed rests on the executive and in particular on the Finance Department. The Auditor General, because of established convention, receives a copy of these directions, and therefore he may bring, though always informally, to the notice of

the Finance Department any failure where prior consultation with the Secretary of State was necessary.

Relations between the Auditor General and the Governor General and the Governor regarding the form of accounts, the principles and methods on which they should be based, the classification of items, the inspection of secret books and documents and the submission of all accounts and reports have been considered above, and are therefore merely noted here.

The relations of audit with the Finance Department ought at all times to be harmonious. That Department is the authority responsible for the administration of the financial rules of the government and the maintenance of suitable accounts by other departments and establishments subordinate to them. Consequently audit has, in the interests of efficient financial administration, to render all legitimate assistance to that department and not restrict it to cases where its advice is sought on the application of financial rules and orders. The Finance Department, on its part, has to assist the Audit Officer in cases where a rule or order has been disregarded. Ordinarily the Audit Officer before taking any action, either to secure settlement of an objection or call for relevant papers or information, refers to the Finance Department. The Audit Officer may and in fact does criticise even the Finance Department; but as both aim at securing efficiency, economy and propriety in public finance, they can best achieve the desired result by establishing mutual understanding and co-operation.[1] Audit co-operates by assisting in all matters pertaining to the drafting, amendment and interpretation of rules having a financial bearing, to budgeting and financial control such as watching the progress of actuals, to the efficient working of treasuries, to the action to be taken on audit reports and the observations to be placed before the Public Accounts Committee.

The relations between audit and the executive governments, central and provincial, are governed by principles

1. Vide A.A.O., para 15.

set forth in agreements between them, called concordats, for the observance of which the head of an audit office is personally responsible. It has been claimed that these concordats do not surrender the independence of audit, but merely regulate the conduct of the audit authorities in their dealings with the executive. As the concordats are not published documents, comment is not possible. There seems to be hardly any reason, however, for withholding publication. Audit is a sort of judicial process, and the legislature and the public have a right to know in what way audit has already tied down its hands through the concordats. Of this we may be sure that audit may not consent to illegal acts or transgress the fundamental principles of audit ; otherwise it would fail in its essential duties.

In his auditorial capacity the Auditor General is given complete independence by statute ; in his financial and administrative capacity he is under the executive. But by convention he has been given considerable financial and administrative[1] powers, so as to assure him of greater freedom in his audit work.

The 'Combined' System

Audit and accounts functions, we have seen, are entrusted to the same agency. On principle such an arrangement stands condemned. In practice the combined system is mitigated in several ways. In the first place the initial accounts in the treasuries or the departments are kept by executive agencies ; the audit authorities check the primary classification made, then compile and consolidate the accounts. Consequently there is no pre-audit of transactions, such as one might be led to expect in a combined system ; because an agency charged with both functions might as well audit each transaction before it is completed. In fact only a very limited number of transactions is pre-audited, and that at provincial headquarters where the Accountant General's office functions as a treasury. Secondly, the actual organisation of a combined audit and

1. e.g. the strength of the staff.

accounts office provides for a system of checks. The sections dealing with accounts are distinct from those dealing with audit ; and further one section, as far as possible, acts as a check on the work of the other. The accountant and the treasurer in a treasury provide a check on each other's work ; the Appropriation Audit Section of the Accountant General's office exercises a check on the audit work of various sections entrusted with the detailed audit of departmental accounts. This ensures accuracy of the work done, and provides for a degree of separation of accounting from audit functions. Thirdly, the combined system does not prevail in all the departments. The Railways and the Defence Services have their own accounting organisations attached to their executive offices.

There are three questions which must be decided in regard to accounts and audit in India. First, should there be a centralised system for the provinces and the Central Government ? That depends on the provinces, for the constitution provides for autonomy in the sphere of audit and accounts. Secondly, should not the Auditor General be independent of the authorities whose transactions he audits ? The answer is that the Auditor General and his subordinates are given such independence by statute ; even though they do not possess the strong position of being the direct agents of the legislature. The third question is, should the Auditor General be entrusted with the keeping of accounts and their audit ? The answer to this has not yet been finally settled upon and we shall therefore examine the question of separation of audit from accounts in a little more detail.

This question may be considered from two main aspects : (*a*) of financial control by the administration, and (*b*) of efficacy of audit by the Auditor General. On the subject of financial control it is an axiom of financial administration that those who administer public funds ought to record their transactions and be responsible for keeping expenditure within the allotted grants or appropriations. For these purposes, clearly, they should keep their own accounts, or else have prompt access to accounts which

they can verify are true accounts. Under the combined system it takes some time for the Accountant General's office to collect vouchers from the treasuries, to classify and compile the accounts.[1] Besides the comparison between actuals and grants by the audit authorities is largely mechanical, as only the executive can properly assess future liabilities. As for accuracy in accounting it may be pointed out that the Accountant General's office not only checks the accounts but also classifies and compiles them ; with the result that there is no independent test of their accuracy. On all these grounds, therefore, efficient financial administration is not possible.

But perhaps on the audit side the combined system is even more disastrous. It is against the fundamental principles of audit for the auditor to keep the accounts he audits. Secondly, the division of attention between accounts and audit is hardly conducive to careful audit. Accounts have to be compiled by a fixed day and so audit is sacrificed to punctuality in submitting accounts. Routine work takes up most of the time ; inquiries and investigations into the efficiency of the primary check may therefore be neglected.

Merits of Separation

On both scores, therefore, there seems to be a good case for the separation of accounts from audit. Many advantages are claimed for such a system. (*a*) The accounting staff would scrutinise the accuracy of claims before paying the amounts and have the figures for entry into the accounts at the same time that the charges were ready. This would enable a better check[2] on payments than now exists and the accounts to be compiled without any delay. (*b*) Further, the accounting staff would be attached to each office and would work immediately under the Finance Department, which is entrusted with the function of promoting economy and controlling expenditure. The accounting

1. The accounts of a month are ready only by the 24th of the following month.
2. Accuracy of bills and greater compliance with financial rules and orders.

staff would therefore very greatly assist in financial control. Again, being in closer touch with their own departments and therefore conversant with their difficulties and needs, the accounting staff would prepare the budget and revised estimates more successfully. Hence financial control and assistance would gain enormously. (*c*) On the other hand, audit being relieved of routine work and entrusted with the task of examining the completed accounts compiled by others, would bring a more detached attitude to bear on the accounts and concentrate on the larger issues of important inquiries, investigations, systems of internal check, and so on. It would keep in touch with the executive through its inspections and local audit. (*d*) Lastly, and by way of rebuttal as it were, if separation involves two processes of audit, the alternative, if departmental authorities are to exercise proper control, must involve two processes of accounting. The latter is wasteful ; effective audit both in its actual results and in its moral and preventive effects is expected to produce savings which to some extent pay for its own cost. Separation ensures the efficiency of the accounting system and the accuracy of accounts by an independent check. If separation is more costly than the existing system, it is in some way the price to be paid for political autonomy and financial control.

The chief advocate in 1923 for the separation of audit from accounts was Mr. C. E. Jukes of the Finance Department of the Government of India. The necessary permission was obtained from the Secretary of State and an experimental scheme of separation of accounts from audit was introduced on the civil side in the U.P. and in certain central departments also.

THE UNITED PROVINCES SCHEME

The accounts organisation was made directly subordinate to the Finance Department. To each large department and to each group of smaller departments was attached a Pay and Accounts Office in charge of a Pay and Accounts Officer, and, as far as possible, in the very office

of the head of the department concerned. The Pay and Accounts Officer scrutinised all bills relating to the department before the cheque was made out for payment at a treasury, which then became a sort of banking counter. The Pay and Accounts Officers compiled their own accounts ; but the compilation for the whole province was carried out in a Central Accounts Office under an officer who was the immediate superior of the Pay and Accounts Officers and directly subordinate to the Finance Department. The Pay and Accounts Officers prepared the budget and revised estimates, which were then sent to the Finance Department for check and acceptance and preparation of demands.

Audit was entrusted to a Director of Audit[1] who carried out audit partly in the Pay and Accounts Offices and partly by local inspection of subordinate executive offices. Success has been claimed[2] for the experiment ; for it is said that where the scheme was effectively tested, all the benefits detailed in the previous section were realised. Audit improved, for it could effect radical improvements by concentrating on larger issues. It was further claimed that because of this success separation in the Defence Services and the Railways was finally accepted by the Secretary of State.

In 1931 owing to the retrenchment campaign the experiment was given up with the approval of the Secretary of State who gave his consent on financial grounds alone. The separation of accounts from audit was continued on the Railways because under the new constitution they would be controlled by an autonomous body, the Federal Railway Authority. The system in the Defence Services continues as before ; their accounting authorities were never really subordinate to the Auditor General.

Whatever defects the system of separated accounts may have, it has the full backing of financial theory. But in actual life finance plays a very important part, and it will therefore be useful to see how far the present system is advantageous, in what ways it fails, and lastly if it is

1. Having the status of an Accountant General.
2. Though government has not finally admitted that claim.

possible to effect changes within the combined system, so as to free it from some at least of its defects without increasing the cost. It is held now that the present system gives audit a much closer insight into financial administration generally, and a much greater opportunity of assisting the Finance Department ; and in practice does not hamper financial administration.

THE CASE AGAINST SEPARATION

(1) The first argument for separation is that financial control is inadequate and that the system of scrutiny before payment would remedy the situation. Yet this system cannot always be immediately applied[1] and is suitable only where payments are centralised in a limited area. Further, compilation of accounts has been very greatly speeded up ; so that figures for progressive expenditure are ready for use within a few weeks of the date of payment. This data is sufficient for control of expenditure for the greater part of the year. Thirdly, the centre and the provinces have found the assistance given by the Accountants General in the preparation of budget and revised estimates adequate for all practical purposes. (2) To the second argument that audit itself would be more effective if separated from accounts, the answers seem weaker. It is claimed, however, that the test-audit staff being less in touch with the executive would be less advantageously placed for the conduct of audit against propriety, called also higher audit. The claim has force ; but it could be replied that this scrutiny might as well be carried out by the accounting staff in a separated system which would be under the Finance Department, the department primarily concerned with economy and propriety. The other fact is that a system of separation would involve an increase of expenditure. The Pay and Accounts Office would cost as much as the Accountant General's office today and in addition there would be the cost of the statutory audit. To estimate the value of the argument we must see whether the advantages

1. e.g. contingent expenditure where scrutiny is limited to check against lump sums.

derived from the system of separation are so great as to outweigh the cost. It is held that the present arrangements give almost as good results in audit as are claimed for the other system. Besides, the provincialisation and departmentalisation of the accounting organisation might lead to its deterioration. A central service[1] has more opportunities for preserving and improving its efficiency. Again an accounts organisation under the executive will be less free to criticise, and check the extravagances of, the latter. The Auditor General is assured of an independent status and this contributes not a little to his efficiency in audit. As for the necessity of having a double audit in the system of separation, it may be replied that the Auditor General will exercise only a test-audit. There will not be a full duplication of audit work.

Perhaps the greatest argument for the combined system is that in practice it has proved itself adequate to the tasks it has had to fulfil. The movement for change has come on grounds of principle, not on grounds of practical deficiencies.

Hence it would be sound, we think, to modify the present arrangements ; so that fundamental principles are followed as far as possible without any undue increase in cost. It is not quite true to say that the Auditor General audits his own accounts, for the responsibility for initial accounts does not rest with him. He, however, classifies the accounts which he compiles ; to that extent there is no check on his classification. In Madras the treasuries submit classified accounts to the Accountant General. Audit of classification has a meaning therefore in Madras. This system could be extended. The function of the Auditor General would then be restricted to consolidation of accounts and their audit. It will be clear such an arrangement does not at all vitiate audit, though it is economical in its working.

It has been found that where the Auditor General conducts only test-audit, his recommendations carry less

1. It will be generally granted that the larger the department, the greater the scope for training new men.

weight. The executive departments rely on the accounts staff ; audit becomes a legal necessity which the departments must bear because they cannot do away with it. This lack of prestige[1] is, we think, a serious matter for consideration specially as the Auditor General is not the legislature's direct agent. For speeding up the accounts, machine accounting would certainly be of great value.

EFFICIENCY OF AUDIT

We must conclude this chapter by evaluating the efficiency of audit. In the first place the very existence of an audit machinery, as was remarked in chapter II, serves to check frauds and irregularities. The departmental offices hardly like to come off second best in their evidence before the Public Accounts Committee, and they are careful to satisfy the demands and criticism of the audit authorities. Secondly, though not inherent in the auditorial function, the Auditor General by convention has been given the power to effect recoveries of all irregular expenditure. Thirdly, audit is not the administration, and cannot, therefore, enforce economy directly because it is not in touch with facts. Audit sees that the financial rules and orders are carried out and that the administrative officers do not go contrary to the expressed instructions of the executive and the legislature. But the bills are prepared by the administrative officers ; it is for them to see that charges included in the bills are really incurred.[2] Economy in expenditure is primarily the concern of the administrative department and then of audit. Fourthly, it is sometimes asked whether audit is a financial proposition, whether it pays its way. It is true to say of audit, as of certain other departments,[3] that its function is chiefly negative. The fact that there is a police force reduces crime ; similarly the fact that there is an audit department which will

1. If audit ceases to be a force, the money spent on it is a waste.
2. Certification as to initial facts is left to executive officers. A certain percentage is verified at local inspections. Vide *Introduction to Indian Government Audit and Accounts*, articles 29 and 30. Indirect work in the prevention and detection of fraud has been important.
3. e.g. the police.

fearlessly and without favour bring offenders to book reduces irregularities and conduces to economy. Fifthly, audit officers have rendered valuable pioneer service as regards accounts whenever they have started work in a fresh field.[1] They have moulded and still mould the form of accounts and prevent errors of principle. Lastly,—and this is a charge levelled against audit—the Audit Officer has devoted his time to detection of technical errors. This has been so because the rules to be applied are themselves elaborate and because the bills have been prepared wrongly. The enormous number of objections raised may also be due to lack of intelligence and undue rigidity on the part of the auditor. To that extent audit has not been animated by the true spirit. In extenuation it may be said that the rules prescribed are themselves very rigid and admit of no relaxation. Audit is ever increasingly devoting its time to promote economy. As irregularities diminish, more time is released for such tasks.

1. e.g. Local Fund Audit.

CHAPTER X

PUBLIC ECONOMY AND FINANCIAL CONTROL

The Centre and the Provinces

Finance in any state is a matter of the utmost importance. Good administration aims at securing revenue equitably and spending it prudently and economically. Governments like individuals must be careful in the management of their financial operations, whether revenue, expenditure or debt, even though there are great differences between the economy of the individual and public economy. The individual works for a profit and the profit actually made is the test of the efficient administration of the undertaking. The state must govern well ; it must balance expenditure against income, it must keep down the costs of a service to the minimum. The test of good government finance is a balanced budget, balanced not only on paper but in fact. Again the individual is concerned with his own interests and the interests of those closely connected with him ; the state must order all things always with an eye to the future, to the interests of generations to come. Hence the statesman and financier may even have to oppose a scheme which, though it might promote the immediate well-being of the people, will impose burdens in later years.

Public Economy is the ordering of public business with the least cost to the tax-payer. Financial Control is the means to achieve it. The first will deal with the elimination of waste and extravagance both in the financial policy decided upon and the actual administration of services ; the second will centre round the agencies, methods and principles by which control in financial matters is exercised. Democracy, Bryce has remarked, is the most expensive form of government, and in recent years the expensiveness of administration has increased. Partly, however, the increase may be attributed to the change in

political ideology from the Police State to the Service State, and the consequent demands on governments to provide more and more services.

Before we plunge into the subject of economy and control, we should note a few differences that exist between the centre and the provinces in India, in order to assess rightly the problems and limitations they have to face. The problem of public economy and financial control depends very largely on the power of the people, exercised through the legislature, over the purse. It was pointed out in an earlier chapter that the control of the central legislature over the budget is greatly restricted, while that of the provinces, within their own sphere, is fairly substantial.

Secondly, the full burden of the sterling debt falls on the centre only. This debt, thanks to the large amounts that have been repatriated since 1937-38 and specially during the present war, is now almost wiped out ; and there is the possibility of India emerging as a creditor country when the war is over. Payments for the service of debt come under the category of expenditure charged on the revenues.

Again currency and exchange are the responsibility of the centre which has to meet large sterling obligations every year. When the balance of trade is favourable these obligations are easy to meet ; when unfavourable and the exchange is weak, the problem of making sterling payments is difficult.

Even a slight fall in exchange causes a considerable extra burden to the government in rupees for the discharge of sterling obligations and uncertainty to those engaged in trade and industry. Besides it has been claimed—it is not for us to enter into the controversy—that the value of the rupee in terms of sterling has to be maintained in order to preserve Indian credit in the world market. The Governor General has the special responsibility to safeguard India's financial stability and credit ; and this includes the task of seeing that normally expenditure is kept within revenue, that if loans are resorted to, their terms and objects

are such as will not prejudice the credit of India, and that a sound exchange and currency policy is followed.

The new constitution divides the resources of India between the provinces and the centre. But the provinces though they have expanding functions, nevertheless have been allotted inelastic sources of revenue. Hence the constitution provides for assignments of taxes and grants to the provinces. The Niemeyer Award has determined their extent and distribution.[1] To the extent that such taxes are administered by the centre, the provinces cannot be said to have full control of the purse. But such adjustments are inevitable in a federation.

Financial control will have to face the problem of growing expenditure. Between 1933-34 and 1936-37 there was an increase of expenditure by 69%, and part of this increase may be accounted for by the expansion of legislative bodies, separation of political from administrative functions, creation of ministries and parliamentary offices, creation of new provinces, expenditure on buildings for administrative purposes, etc. On the other hand provincial revenues are inelastic and most of the Provincial Governments committed to abolishing excise through a policy of Prohibition and making generous concessions in land revenue. The centre for its part has to deal with the problem of defence in a war-ridden world with its customs revenue on the decline.

There are broadly two ways in which economy may be effected, by economy of policy and by economy of management. The first deals with the question "What services should government provide ?" and the second with "How can money on a particular service be spent to the best advantage" ? The first refers to the objects of expenditure ; the second to the manner of administering those objects once they have been decided upon. Administrative authorities are only concerned with the latter ; it is the executive and above all the legislature which should decide the first.

1. Vide Ch. XI, *Financial Adjustments.*

There are broadly four agencies that are engaged in financial control : (*a*) the administrative officers and the executive which forms the apex of the administrative pyramid, (*b*) the Finance Department, (*c*) audit, and (*d*) the legislature. We shall examine the methods and scope of each of these agencies.

The Administration and the Executive

The estimating and disbursing officer, as was seen in chapter V, is the head of the office or department ; and on him falls the responsibility of exercising the first checks to secure economy and efficiency, for he assists both in formulating policy and in executing it. He is required to examine all schemes pertaining to his department, give his considered opinion on them, and, if he deems useful, suggest alternative schemes to meet the end in view. He is in touch with all the details of administration and the higher authorities must necessarily depend on his honesty, sincerity, discretion, skill and efficiency to effect all possible economies at this stage. No person is better fitted to eliminate waste and suggest alternative methods of achieving a particular object. For example, he knows more than any other officer the staff that will be necessary, the amount of work that may reasonably be expected, the quantity of materials required, etc.

Finally, as the estimates of a large scheme are made up of these smaller estimates, the importance of the latter cannot be exaggerated. The head of an office is the man on the spot. If he determines to effect economies he is in an excellent position to do so. But on the other hand if he disregards economy and efficiency, the higher authorities will find it difficult to point an accusing finger at any definite wastage, as in the first stage of estimating it is not the absolute value of a saving that is important but the cumulative effect of savings in a number of small and apparently insignificant directions—trifles indeed that go to make perfection. The higher authorities in the hierarchy of control will concern themselves with comparison and co-ordination, general procedure and principles ; they will neither be in a position

nor have the time to go into details. And unless the head of an office exercises a firm control in the interests of economy, he has surely failed in his duty—an administrator who disregards economy is not worth his salt.

The head of an office is undoubtedly assisted by the heads of the different sections in his office. These will have an even more intimate knowledge of details ; but their interests and work will be narrow. It is the head of an office who is in the best position to view the working of the different sections as a whole and evaluate the contribution of each to the business of the office. Hence the tendency to entrust the head of an office with financial duties as well ; in this way he is able to criticise expenditure from the standpoints of economy, regularity, financial policy and technical correctness.

To co-ordinate and control the work of the estimating and disbursing officers, who are the first link in the chain of financial control, there are the controlling authorities, through whom the estimating officers forward their estimates to the administrative departments of the government. These authorities scrutinise the estimates submitted to them in the light of comparative data, past experience and the explanations given by the estimating officers for variations in the estimates from the figures of past years. The head of an office is apt to take last year's expenditure as the basis on which to construct the present estimates ; to follow the line of least resistance by allowing things to go on as in the past is a great temptation for him as for any other mortal. To effect changes will call for a deal of correspondence with the higher authorities, require a number of questions akin to cross examination to be answered and, worst of all, may disturb the good relations with the staff. No head of an office wants to plunge into a new state of affairs which he does not know, when he has already an organisation running smoothly without trouble. This tendency to leave things as they are is one of the problems which have not been fully settled—even the Finance Department seems to be no exception—and given human nature as it is, may never be settled. Once an expenditure is sanctioned it goes on from year to

year until owing to a depression or a cataclysm a legislative or administrative committee is appointed to inquire into the possibilities of retrenchment. The controlling authority examines whether the estimating officer has given thought to each item of expenditure ; from a comparison with other offices he suggests lines of investigation with a view to economy, and, if he finds fault with the system followed, calls for further explanations. He then consolidates the estimates he has received and forwards them to the administrative department with his remarks.

Controlling authorities also distribute the grants and appropriations for the year to the disbursing officers. Each disbursing officer must watch the progress of expenditure on the items under his control, and bring to the notice of the controlling authority any tendency to excess or saving. The controlling authority also watches the progress of actuals in all the offices under his control and is, therefore, in a better position to judge if supplementary grants will be necessary, and advise transfers from one unit of appropriation to another.

The final administrative authority is the department of government concerned with a particular subject or group of subjects. These administrative departments may be considered in their relations with the subordinate administrative authorities, the Finance Department, the ministry (at the centre the Executive Council), and the legislature.

The administrative department is concerned with both policy and management. From its subordinates it gets the details of schemes fully worked out and where possible even alternative suggestions ; to the Finance Department it submits all its proposals for an examination of their financial implications and bearings ; through its political head, the minister-in-charge of the department, it participates in all discussions of policy ; before the Public Accounts Committee of the legislature it is answerable for all irregularities in finance committed in the department and by subordinate officials.

The scrutiny by the administrative department of the estimates from controlling authorities is guided by the policy of the government with regard to special questions, e.g. education, rural development, prohibition, defence, etc., or generally to the amount allotted for the expenditure of the department, and by the instructions of the minister on matters which are not grave or important enough for cabinet decision. Before the estimates are submitted for the consideration of the ministry there is an informal meeting of the secretaries of the different departments, and on all minor matters claims are adjusted by mutual understanding. The political head of a department is not at all concerned with routine work ; he devotes or should devote his entire time to policy. The permanent head of a department is the secretary. He scrutinises all the estimates pertaining to his department and then, with the approval of the minister, forwards them to the Finance Department. If the administrative department reduces the estimates of a subordinate authority the Finance Department does not question the reduction ; for the responsibility of keeping expenditure within the estimates is primarily that of the department concerned. If the estimate is increased, the Finance Department, after scrutiny, may restore the original figures. In the event of the administrative department disagreeing with the decision of the Finance Department, the matter is laid before the government collectively for orders.

The administrative department distributes grants, communicated to it by the Finance Department, to the controlling and disbursing officers. It is the duty of the administrative department to watch the progress of expenditure, and it has power to grant re-appropriations between heads subordinate to a minor head. If expenditure is likely to exceed the grants, it must take steps to have the excess regularised by supplementary appropriations.

There are three departmental checks imposed, therefore, on financial affairs ; first, the check or control exercised by the estimating and disbursing officer ; secondly, the scrutiny of the controlling authority ; and lastly, the

supervision of the administrative department, which bears the responsibility for all the business under its control. As we go to higher levels in the administrative hierarchy, meticulous control of details is lessened and more attention is paid to general principles and policy.

No matter having financial implications may be presented to the ministry, unless it has first been examined by the Finance Department. The Finance Department is concerned not with the general policy to be followed (very often, and certainly in the case of major schemes, this is laid down by the ministry), but with the cost of a particular scheme and financial procedure in general. The Finance Department examines the financial implications of a scheme in all its bearings. It calculates the cost of each item or checks the cost as given by the administrative department, investigates the necessity for the items, states whether the estimates are in excess of requirements, whether the expenditure is recurring or non-recurring, and whether taxation or borrowing will be necessary. The administrative department has to meet the criticism of the Finance Department, and if matters are not settled by correspondence or personal discussion between the secretaries and ministers, they are referred to the ministry for decision.

The administrative department assists the minister who is the head of the department. The minister being an amateur in administration restricts himself to the higher issues of policy. The department must work out the details of these issues at a minimum cost. Under the new constitution the Governor General and Governors are entrusted with special responsibilities, and the obligation is laid upon the minister to bring to the notice of the Governor and the secretary to the notice of both minister and Governor all questions involving these special responsibilties. In all minor matters the minister and his department are autonomous and both are responsible for the plans they sponsor. The administrative department, therefore, in relation to the executive is associated with the framing of policy, and is at the same time a co-ordinating and controlling authority over its subordinate officials.

The administrative department being responsible for the estimates of and expenditure on the services entrusted to it, the secretary is liable to be called upon to explain and give evidence before the Public Accounts Committee of the legislature for all irregularities that may be committed in his department or offices subordinate to it. The system of administration in India is based on departmental responsibility and the administrative department, therefore, must bear its full burden in estimating, in watching expenditure, in making payments according to rules and regulations laid down, in enforcing all economies and preventing waste and extravagance, and in promoting efficiency. The Finance Department is the watch-dog of the interests of the government ; but the primary responsibility is that of the administrative department.

The administration is subordinate to the executive ; even more, in the parliamentary system, the executive is the final authority in administration. Yet the ministers being amateurs do not usually have any technical knowledge of their departmental work and often hardly have any business experience at all of running an office. But the minister "does or ought to bring the invaluable qualities of commonsense and of power to decide between conflicting experts."[1] Hence the minister is almost totally concerned with policy. In minor matters the minister decides the issue on his own responsibility ; in other matters he acts on the decision of the cabinet of which he is a member. His influence in the cabinet will depend on his personal abilities and the policy to which the party in power is committed. The Finance Minister has always to plead for economy, that is his business. If the Prime Minister backs him, then the government as a whole will be economical and careful about all expenditure. If, however, the Finance Minister is without support, as has happened at the centre, his pleas for economy will be mere cries in the wilderness. It is the executive which reviews the estimates of all, and decides points of dispute between, the departments. As in parliamentary democracy the government with its party majority

1. J. W. Hills, *The Finance of Government*, p. 17.

largely controls the legislature, at least as far as expenditure goes, it is the executive which is responsible for choosing sound policies, and for seeing that the administration is carried on with economy, prudence and efficiency.

THE FINANCE DEPARTMENT

The primacy of this department is guaranteed by the Rules of Business ; for all matters which have a financial bearing must first be submitted to that department for examination and scrutiny before being sent for government's approval. The parliamentary system on the question of financial control hinges on the Finance Department. It is this department which devises taxation schemes and controls receipts ; hence it is the best instrument to reduce expenditure so as to strike a balance between income and outgoings, and thus maintain solvency and government credit. Besides, as the Finance Department is not entrusted with any expenditure work,[1] it is in a good position to judge the merits of proposals from different departments and evaluate, as far as is humanly possible, their importance in the general scheme of government expenditure, which must always be to maximise social welfare.

The administrative department being keenly interested in the service it looks after always desires that its proposals should be accepted. But government and the administration cannot afford to be one-sided. This task of evaluating different needs belongs to the Finance Department. The departmental office will always want, if it is at all energetic, to extend its activities, specially in a country like ours where there is so much useful and even necessary work to be done. The department may not consciously be extravagant ; but it will measure all proposals by its own particular and narrow interests, and therefore consider such proposals as being

1. A Finance Department that is also a spending department is morally in a weaker position to promote economy in other departments ; for the departments so affected will always be able to point an accusing finger at the Finance Department. If the Finance Department says to an administrative department, "You are a great spender," the latter may then very properly reply, "You are another."—Vide E. H. Young, *The System of National Finance*, p. 34.

indispensable to the people or to good administration. There is also such a thing as departmental loyalty. Every department feels that any economies it may effect will not be available for its own expenditure and perhaps may be transferred to some other department which does not exercise economy so scrupulously. As between its subordinates the department, looking to its interests as a whole, may reasonably be expected to divide with fairness the total grant placed at its disposal. So likewise the Finance Department is best equipped to divide the revenues between the different departments, both according to their requirements (which may be dictated by government's policy or arise from sheer necessity) and the total amount available to government.

A strong Finance Department is almost indispensable to economy and good government. But the strength of the Finance Department can never be greater than that of the government and the Finance Minister. If the government itself is not sufficiently powerful in the legislature, the control of the Finance Department is useless, because legislative committees may so amend the original scheme of estimates as almost to frame another. This used to happen in the U.S.A. till recently. Again, unless the ministers of a cabinet acknowledge the position of the Finance Minister and the Prime Minister gives him due support, the control of the Finance Department will be ineffective. This happens in France where each department frames its own estimates and looks after its own disbursements, and the Finance Department is reduced to a mere consolidating and advisory body with regard to estimates and a mere agency for providing funds to make disbursements.

We may now consider the control of the Finance Department in greater detail, first as regards expenditure, secondly as regards revenue, and thirdly as regards all other financial functions.

The scrutiny over expenditure is undertaken to consider the financial implications of any policy or proposal,

not the policy or proposal itself, for which the administrative department concerned and the executive government are responsible. As regards policy the Finance Department is concerned only with the financial policy of government, e.g. with taxation, pay of services, revenue remissions, borrowing, ways and means, etc.

However, not all expenditure is equally criticised. A proposal or expenditure once sanctioned is examined perfunctorily, while all new expenditure is scrutinised in great detail. All proposals involving fresh charges on the public revenue (e.g. the construction of a building or creation of a new post) or relinquishment of revenue (e.g. land revenue remissions) must be submitted to the Finance Department for consideration either during the course of the year as occasion arises or at the time of preparing the budget. The proposals are submitted by the heads of departments with all details showing the estimated additional expenditure[1] or loss of revenue and indicating the order of urgency.[2] If the proposal does not involve recurring expenditure the scrutiny of the Finance Department is not so strict as that in connection with recurring expenditure, e.g. salaries for the additional staff required by a department. Unless the Finance Department has examined a scheme it may decline to provide funds either in the budget or otherwise. Thus the control of the Finance Department over the other departments is, in theory at least, complete. The power not to provide in the budget for a proposal unless it has been examined by it is very effective indeed. In practice, it is only the new items that are carefully considered.[3] A very large amount of existing expenditure goes almost unexamined into the estimates.

The Finance Department, however, can hardly be expected to sanction all expenditure, irrespective of the

1. For building schemes sketch plans and approximate estimates are considered sufficient.

2. Government also decides the order in which new proposals may be taken up with reference to the funds available.

3. When expenditure is non-recurring and exceptional, the Finance Department is inclined to be lenient because the burden is temporary.

amount involved. Hence financial powers have been delegated to the different administrative departments,[1] and rules and regulations have been framed to secure that these powers are not abused. The Auditor General as a result of his audit investigations brings to the notice of the Finance Department all cases where sanction, special or general, by a competent authority is wanting or where an administrative authority has exceeded the delegated powers. Every public servant is expected and has the obligation to exercise the same care and diligence in the expenditure of public money as an individual with ordinary prudence might reasonably be expected to exercise in the expenditure of his own money. Given human nature this is too vague and ideal ; hence the codes issued by government for the guidance of its servants. Sanction by a competent authority is one condition for expenditure ; the other is that sufficient funds are provided for the purpose in the budget. These two conditions are independent of each other ; and hence both are required to be fulfilled before any payment may be made or expenditure incurred. Against both these conditions audit is conducted.

The Finance Department, it has been remarked above, must judicially evaluate the demands from the different departments. One consequence of this is that the Finance Department must avoid making exceptions in individual cases. An exception creates a precedent and the final financial implications may be considerable. Impartiality and equity demand that no favouritism should be shown. Every government servant, for example, must be treated according to the rules and privileges applicable to him.[2] The other consequence is that it must co-ordinate expenditure, for it has much comparative data at its disposal. Every department is familiar with its own work and the conditions under which it is carried on. But the Finance Department knows

1. And through them to other and subordinate administrative agencies.
2. The pay of a post is fixed with reference to the responsibilities of the post. The outstanding merit of a particular officer might be rewarded by promoting him to a higher post when it falls vacant ; but no allowance or higher pay should be given him for doing his duties as that would mean breaking a general rule.

what similar work in another department costs. It is thus in an excellent position to review and compare, and so promote economy in one department on the basis of results obtained in another. By this means the best results may be obtained at a minimum cost. Still another consequence is that the Finance Department must take a detached view of proposals. An administrative department will always think it is making a very good case for a particular proposal, e.g. revision of a scale of pay. But the Finance Department must consider the full financial effects of such a proposal, how, for example, it will affect comparable posts in other departments which are sure to make similar demands.

Hence with regard to expenditure the Finance Department is concerned with policy as it works itself out in financial obligations and affects management. For it scrutinises all fresh proposals, examines all items before making budget provision for them, and lays down the rules and regulations by which each department may work in an efficient yet economical manner. Much of its criticism is based on comparison ; and as it examines estimates and proposals from all quarters, it is in the best position to promote economy.

In some of the big departments, e.g. Defence, Railways and Posts and Telegraphs, there is a system of initial financial control in operation. The Financial Advisers of the Defence Services and the Posts and Telegraphs and the Financial Commissioner of the Railway Board are the representatives of the Finance Department in their respective departments. This system is necessary in the case of large departments, so that the functions of the Finance Department may be exercised in greater detail, with less delay and to better effect than would otherwise be possible. These officers not only watch the interests of the Finance Department but are able to assist the administration as well.

On the revenue side the control of the Finance Department varies considerably ; at the centre it is directly connected with the collection of revenue, in the provinces this task is performed by a separate Revenue Department. That

the Finance Department should also adequately control revenue is obvious ; but the degree of control varies.

At the centre the Finance Department through the Central Board of Revenue is in close touch with the collection, the difficulties encountered, the causes of fluctuations, and the variations of actuals from the budget estimates of receipts.

In the provinces there is a separate department for revenue purposes owing, so it is claimed, to the variety and magnitude of the problems involved. Land Revenue administration, for example, is entrusted to the Revenue Department. The other provincial sources of revenue such as excise, stamps, registration, forests and water rates are managed usually by the Revenue Department, though the administration of excise is entrusted sometimes to another department. Each department has its own codes and rules for the assessment, collection and remission of revenue, and the control of the Finance Department over it is limited, even though on certain matters[1] no orders may be issued without previous consultation with the Finance Department. This department is kept informed of the progress of receipts by periodical reports and has the authority to advise the department concerned about the progress of collection and methods of collection employed.

The control of the Finance Department over revenue is therefore limited. There is no detailed scrutiny as is the case with expenditure. Audit against receipts is also limited. Hence control over revenue is weak at both ends. This arrangement requires modification.

Besides revenue and expenditure the functions of the Finance Department extend to all proposals regarding taxation, to borrowing and public debt, to maintaining the minimum balance with the Reserve Bank and providing ways and means, to managing certain funds, preparing the budget, distributing the grants, watching the progress of actuals and

1. I.e. matters which involve any grant of land, or assignment of revenue, or concession, grant, lease or license of mineral or forest rights or a right to water power or any easement or privilege in respect of such concession, or any relinquishment of revenue for which credit has been taken in the budget.

bringing to the notice of the Public Accounts Committee all irregular expenditure ; and at the centre, in addition, work in connection with mints and coinage.

The Finance Department deals with all proposals for reducing or increasing taxation no matter in what department they arise. The administrative department is responsible for the policy of the tax ; the Finance Department examines its financial implications and places the results before the department and the government. The actual floating of loans is done by the Reserve Bank ; but the Finance Department decides the amount required and with the advice of the Bank the rate of interest. Similarly though the control of public debt is vested in the Finance Department, the Reserve Bank manages the administration of debt. The agreement with the Reserve Bank stipulates the minimum balance to be maintained by the government to its credit ; and it is the Finance Department which sees that the minimum is maintained at the Bank as well as that adequate cash is available at treasuries the business of which is not conducted by the Bank ; and, if necessary for these purposes, arranges for ways and means advances or for the issue of treasury bills. The Finance Department is responsible for the safe custody of funds, and it is the authority which is required to make all subsidiary rules to the Treasury Rules for the custody of funds at treasuries and in the Bank. It manages certain funds like the Famine Relief Fund and maintains adequate balances in the funds as prescribed by law. In connection with the preparation of the budget the Finance Department consolidates the estimates ; and the Finance Minister presents the estimates to the legislature with his budget speech. When the demands are passed, the grants are communicated to the other departments by the Finance Department which also keeps watch over the progress of actuals, authorises re-appropriations and brings all unauthorized expenditure to the notice of the Public Accounts Committee.

When all has been said about the control exercised by the Finance Department in the administration of government finances, it remains to inquire if that control is

adequate and efficient, and how far it extends. First of all the Finance Department, like any other department, can neither dictate nor veto policy, which is ultimately the concern and responsibility of the government. The Finance Department places before government all the financial implications, the immediate cost and ultimate commitment, so that government may arrive at a wise decision. The policy of prohibition, for example, entailed very serious financial consequences, the loss of revenue on the one hand and the growth of expenditure on the other, and the Finance Departments must have surely placed all the data before the ministries. But the policy as laid down by the ministries prevailed and the Finance Departments, quite as carefully, worked out schemes of taxation to make up for lost revenue. Even on the question of taxation it is government that decides whether a particular tax shall be levied or not ; the Finance Department merely places material before it, e.g. the probable yield at a given rate, the difficulties of administration, the cost of collection, opportunities for evasion, etc. The responsibility for policy must be unflinchingly borne by the government ; it cannot divest itself of that responsibility.

Secondly, in matters where policy is not involved the Finance Department has a special position of authority, though as regards revenue its control is very limited. Even as regards expenditure there are some departments which because of their highly technical nature or because of their connection with the most essential functions of the state, e.g. defence, usually have their own way. Even in England where Treasury control and prestige are at their highest, the Army, Navy and Air Force estimates are practically settled independently of the Treasury ; at any rate the scrutiny is very limited. It is in the civil spending departments that the control of the Finance Department is the closest ; even in matters of detail its opinion prevails. Of course all doubtful cases, that is cases which are on the border line between detail and policy, and all disputed cases are either settled by discussion between the ministers concerned or referred to the cabinet for its decision.

The Finance Departments have been modelled on that of the British Treasury. The British Treasury because of its long tradition can almost refuse applications from departments without giving reasons, the onus of justifying the proposals resting on the departments themselves. Tradition in India has tended to make the Defence Services a privileged department, and further owing to the omnipotence of the Governor General (unlike that of the British Prime Minister) the Finance Member at the centre is helpless, unless he has the ear of the Governor General. In the provinces, the Finance Departments are comparatively recent ; yet the very fact that some provincial Premiers have included finance in their portfolio is a healthy sign that ministries want their Finance Departments to be strong and effective in promoting economy.

Lastly, does the Finance Department exist to hamper, delay or irritate the other departments by vigorous scrutiny of their proposals ? Evidently not. Much understanding, tact and sympathy are required from the Finance Department. On the other hand firmness is equally required, or the departments will start proposals to which they have given insufficient thought and care.

Audit

The third agency of financial control is the Audit Department and its control is exercised through a sort of post-mortem examination. Audit examines the accounts of the executive's transactions and reports on them. Audit is not responsible either for the policy followed or the actual administration ; it investigates the accounts to see primarily that the executive has not exceeded the grants or appropriations allotted for specific objects, and in the next place whether in the course of administration there has been waste or extravagance. All the different kinds of audit conducted fall under one or other of these two heads. Hence audit is concerned with regularity rather than with economy.

In order to discharge these critical functions without fear or favour the Auditor General and his staff have been given an independent status. Audit is not only independent of the departments but even of the executive. The idea of reporting to Parliament of the irregularities in administration was given effect to in England only in 1866 by the appointment of a Comptroller and Auditor General ; but it must be acknowledged that such a procedure is a necessary stage in financial control. If the legislature must control the purse, then it must take accounts from those whom it appoints as its stewards in the management of finances. Audit is the agency by which such accounts are examined. The power to vote supplies, without knowing whether its commands are obeyed or not, is inadequate for efficient control by the legislature.

The reports of the Audit Department are placed before the legislature and a legislative committee called the Public Accounts Committee[1] goes through the report with the help of the Auditor General, examines heads of departments if necessary, expresses its disapproval of the major irregularities and recommends improvements. The committee does not take any disciplinary or drastic action ; that is taken by the Finance Department. It is said of the British Treasury that it roars out like a lion where the Public Accounts Committee has criticised very mildly like a lamb. This sort of censure is very effective. " The Treasury do not spare the rod. The Committee's reports are driven home with force and energy."[2] It is not certain whether the Finance Department in India has attained that degree of influence and authority. But certainly in the vast majority of recommendations of the Committee, the Finance Department has taken action. The fact that the head of a department may at any time be called upon by the committee to explain some delinquency is an effective deterrent on a would-be sinner ; the fact that the Finance

1. " The Auditor General beats the bush and starts the hare ; the Committee runs it down ; and the Treasury breaks it up."—E. H. Young, op. cit., p. 153.
2. J. W. Hills, *The Finance of Government*, p. 125.

Department will follow it up by censure and direct action is a still further deterrent. Hence, it is easy to see, audit controls by preventing irregularities—a negative sort of control, but nevertheless very useful. Sometimes, of course, it is not the department but the system which is criticised by the committee, e.g. simplicity in the presentation of estimates. On these questions the Finance Department gives the suggestions of the Auditor General and the committee very careful consideration.

Audit assists the legislature ; even more it helps the Finance Department and the executive, more in the sense that it brings irregularities to the notice of the Finance Department during the course of the year. We saw above that by sheer necessity the Finance Department is obliged to delegate financial powers to the administrative departments and their subordinate officers. These powers are contained in codes giving rules and regulations for the conduct of financial business, account-keeping, receipt, expenditure and safe custody of public moneys, etc. Audit examines whether all these rules have been faithfully and carefully followed ; audit is therefore, in a sense, the agent of the Finance Department which is thus informed how things are going on. The close association and harmonious relations between audit and the Finance Department are therefore one of the most effective instruments of financial control. Between the Auditor General and the Central and Provincial Governments concordats have been signed which regulate the raising of objections by the former and their settlement by the administration, and which regulate the publication of irregularities in the government accounts. These 'concordats' have been kept confidential, but there seems to be every reason why they should be made public. Audit acts on behalf of the tax-payer, and the tax-payer must know of all the limitations, voluntary or otherwise, that are imposed on his agent.

The Legislature

Under the parliamentary system the executive is really a committee of the legislature and a committee that is jointly

responsible. Hence ultimate control in matters of policy and administration rests with the cabinet as a whole and not with any single department. On questions of financial policy, which may arise at any time but chiefly at the time of budget preparation, the sole responsibility rests with the executive. It will decide what fresh schemes of expenditure should be taken up, how the required funds are to be obtained, what new taxes, if any, should be levied, what loans or borrowings should be made, etc. These are questions which the government collectively must settle. Sometimes the decision of the cabinet is also required on questions of daily administration because they concern some or all government departments, e.g. financial powers of the different administrative authorities, salary grades, allowances and pensions, reduction or increase in pay, etc. Hence unless the government as a whole is inspired by a spirit of economy, no matter what efforts the Finance Department may make, financial control will never be efficient.

The legislature on the other hand is concerned only with policy ; it is very ill-equipped to discuss details of financial administration and management. Even on questions of policy the power of the legislature is limited in practice, because the cabinet has the support of the majority in the legislature. As regards expenditure the estimates presented by the executive reveal the policy they wish to follow ; and the legislature is asked to vote the demands for grants. By constitutional theory it is the legislature which must vote supplies,—that is the power of the purse, the real control over the executive. It is open to the members of the legislature to change the policy or rather to force the executive to change their policy by not voting supplies. In practice, "once the estimates are printed, their fate is sealed." The legislature cannot increase an estimate, as each estimate before being considered must be recommended by the executive. The legislature cannot decrease it either, because it will be made a question of confidence in the government itself and members are not likely to vote against their party on trivial matters. Hence the power of voting supplies first used in Great Britain to check the

extravagance of the kings is to-day of no avail. It has even been found that legislatures are more extravagant than the executives, and hence the restriction on the privileges of members with regard to increasing expenditure or taxation. In India the legislature has a further restriction on its powers. There is a fairly large amount of expenditure which comes under the heading "charged on the revenues" and is therefore outside the vote of the legislature. The responsibility for such charged expenditure is entirely that of the executive.

On matters relating to taxation the voice of the legislature can make itself felt to a great degree. The initiative rests with the executive ; the legislature may either accept, reduce or reject the tax proposals. But if expenditure has already been voted (and tax proposals are taken up after demands for grants have been sanctioned), the legislature has its hands tied down to some extent ; for it is unreasonable to vote expenditure and not to provide the means to meet that expenditure.

Borrowing is entirely done on executive responsibility, though it may be limited by an Act of the legislature as regards amount and guarantee to be given.[1] So far no Act has been passed by a provincial or the central legislature for these purposes.

The conclusion is, therefore, that the control exercised by the legislature is confined only to large questions of policy ; and that even here in practice there are severe restrictions. The worst feature of modern legislatures, as has been remarked, is their tendency to extravagance rather than economy ; and this is due in large measure to public opinion which favours more and more expenditure.

To exercise financial control the legislature has two kinds of committees ; the one, called the Standing Finance Committee at the centre and Finance Committee in the provinces, which scrutinises all fresh items of expenditure, and the other, called in both the central and provincial

1. Vide Ss. 162 and 163.

legislatures the Public Accounts Committee, to scrutinise the appropriation accounts and the auditor's report thereon.

The Standing Finance Committee is not mentioned in the Rules of Procedure of the central legislature. So its constitution and functions are determined by the executive according to the wishes of the Assembly. The committee consists of ten elected members with a chairman nominated by the Governor General. The functions of the committee are : (*a*) to scrutinise new proposals under votable expenditure in all departments, (*b*) to sanction allotments out of lump sum grants, (*c*) to suggest retrenchments and economy in expenditure, and (*d*) generally to advise the Finance Department on such matters as may be referred to it.

The committee was constituted to give the legislature an opportunity of examining the estimates thoroughly. Government estimates are admittedly varied, detailed and intricate, and therefore demand special and technical knowledge on the part of those examining them. The Finance Committee is entitled to call for explanations on any point it desires, question the propriety of expenditure and suggest economies. It has the opportunity of studying proposals in detail and therefore knowing their bearing on the financial policy of the government. This knowledge is very useful, because should the government set aside the recommendations of the Finance Committee which is purely advisory, the members will be better equipped to criticise government's policy in the open house. Usually government will not go to the legislature when the committee has turned down any proposal ; as the fact that the committee has disapproved of it will be a strong inducement for the house to go against the government. The committee considers only votable items ; but the Finance Department has decided ordinarily to refer new proposals for civil expenditure in the 'charged' category to the committee for its advice. The committee also considers cases in which supplementary grants are required.

The shortcomings of this committee are apparent. It is merely an advisory body with no voice in matters of

policy. It may range over the whole of the civil estimates ; but it has too technical a task, if it desires to suggest economies in the different items. Such a task must necessarily be left to the administration. The success of the Finance Committee has chiefly been in those cases in which new items were considered. As this is a question of policy, and as the Finance Department furnishes memoranda on the items before the committee, tangible results are possible.

In the provinces there are Finance Committees to advise on new items of expenditure and on financial matters that may be referred to it ; to advise on proposals for, and even to exercise such powers of, re-appropriation within the competence of the Finance Department, as the legislature may authorise it to exercise. The number of members varies and generally the Finance Minister is the ex-officio chairman of the committee. The provincial committees also have been successful as regards new items.

Sometime in September 1938 Sir James Grigg, the then Finance Member, outlined proposals for an Estimates Committee for the centre, based no doubt on its British counterpart, the Estimates Committee of the House of Commons. But the Estimates Committee in England has been admitted on all hands to be a failure. " After weeks of deliberations," says Hills, " on the Navy estimates, the only substantial recommendation was for a reduction in the supply of tobacco to sailors ! " It will be useful therefore to see briefly why it failed in England, so that we might profit by that experience to avoid mistakes in India. The Estimates Committee consisting of fifteen members drawn from all sections of the House of Commons was first appointed in 1918 to " suggest the form in which the estimates shall be presented for examination, and to report what, if any, economies *consistent with the policy implied in those estimates* may be effected therein." The italicised words are important, because therein lies the chief source of the failure of the committee.

The British cabinet is formed from the majority party in the legislature and cabinet responsibility is one of its

main characteristics. Hence policy can never be surrendered to any committee of the house. The Estimates Committee, therefore, is precluded from entering into questions of policy. But as we saw above, it is precisly on policy that the legislature is best fitted to pronounce. Hence the failure of the Estimates Committee. Secondly, even apart from policy, the Estimates Committee could not go into economies of expenditure because every vote on expenditure may be treated as a vote of no-confidence in the cabinet. This seems to proceed from the principle that "no government will be worthy of its place if it permitted its estimates to be seriously resisted by the Opposition." But as Higgs and others maintain there seems to be no ground for rejecting such suggestions ; for alterations in estimates solely on the ground of possible economies cannot be regarded as an encroachment on ministerial responsibility or a reflection on the ministers concerned. Thirdly, examination comes after the estimates have been presented and, therefore, discussions of the committee have little effect. The committee would be much more useful if it were consulted before the estimates were presented ; in that event the cabinet would not be in the awkward position of having to go back on its own figures. Lastly, and perhaps, the most important as will be shown later, the Estimates Committee is not assisted by technical experts, even when examining questions of pure economy. Without this assistance it is difficult for laymen to go into intricate details and place their finger on the correct spot where extravagance is evident.

For these four reasons the Estimates Committee has been a failure in England. We have now to ask if there is any likelihood of the Estimates Committee becoming a success in India. The answer may be provided by examining the above four points in regard to the centre and the provinces, and other relevant matters.

First, the constitution of India is in a transitory state and gives expression only to partial self-government. While the House of Commons is sovereign, the Indian legislatures have their powers hedged round with restrictions and

safeguards. If the committee of a sovereign legislature has been rendered impotent, what fate awaits an Estimates Committee in India at the present political stage may be easily imagined. All 'charged' expenditure will be excluded from the committee's purview ; further its examination will be restricted to a group of estimates selected by the Finance Department. For the first experimental stage it is suggested that "the Survey of India, Botanical Survey, Zoological Survey, Archaelogy, Education, Medical Service and Public Health might form a suitable group." Hence of the total expenditure the committee will examine a small part of a small votable fraction. Evidently a mountain labouring only to produce a rat! Secondly, the system of government being parliamentary and on the British model, policy will be outside the committee's scope. Thirdly, the estimates will be examined after they are presented to the legislature, when they are quite stale and when most probably government would make any serious change in the estimates a test of confidence or prestige and squash it. The existing Standing Finance Committee does influence government decisions just because the estimates are in reality confined to certain specific problems, viz., new items, and submitted for examination before the estimates are presented to the legislature. It is said that perhaps the committee's recommendations will have effect on next year's estimates, and hence financial control by the legislature will be advanced by two years, as the recommendations of the Public Accounts Committee are only on the completed accounts of a year and therefore of no immediate effect. But then the scope of the Estimates Committee is very limited ; it applies only to a very small group of items. Besides the question of the form of estimates will also be excluded from its purview as that falls more properly within the scope of the Public Accounts Committee. Lastly, no provision has been made for staff assistance. Without it the committee, we may safely say, will be thoroughly useless. The proposal by Hills and others with regard to the Estimates Committee in England is that it should be given adequate expert assistance. It will then, like the Public

Accounts Committee which is assisted by the Auditor General, be of some use, because at least certain concrete points will be examined and suggestions made.

We may conclude, therefore, that an Estimates Committee in India will not improve matters. Two difficulties must be overcome, first ministerial responsibility and secondly non-votable categories of expenditure. On the first point the practice may be started for the executive not to construe suggestions for economy as a reflection on the ministers. The power of the American and French executives, it is said, is not so jealously guarded on the score of ministerial responsibility. True, but then the whole system of financial procedure changes ; and it is not enough when considering financial procedure to consider only certain points of it. The financial system must be judged in its totality, and the British system, we submit, is superior to both the American and the French. As for the second point nothing less than constitutional amendment can remedy it.

It is possible that a self-governing India may adopt a different financial system from the British ; and then certain suggestions may well fit in. But it would be well to bear in mind that the British system with all its faults (and there are many) has been more economical and efficient than that of most other countries.

The second type of legislative committees in connection with budgetary procedure is the Public Accounts Committee, the instrument by which the legislatures make their executives responsible to them and by which financial control is exercised, albeit after the happening of the event. The Public Accounts Committee is a standing committee of the legislature, constituted at the commencement of each session under the Legislative Rules for the purpose of scrutinising the reports of the Auditor General on the appropriation accounts and such other matters as the Finance Department may refer to the committee. The committee[1] consists of elected members, usually about twelve in number, drawn from all parts of the house by means of the single

1. Vide Legislative Rules, Appendix VI.

transferable vote. The Finance Minister or Member is an ex-officio member and has also the right to be chairman, though he may waive this right ; and then the members of the committee elect a chairman from among themselves. It is the practice in England to appoint the Leader of the Opposition as chairman of the committee. In India the Finance Minister or Member is usually the chairman. The English system tends more towards economy, for the Opposition is usually more alert than party members to examine cases of irregularity. The healthy democratic principle of respecting the claims and wishes of the Opposition has not yet found a place in India. Not a happy augury, for healthy conventions give a tone to the financial system of any country.

The members of the committee are elected for a year but may be re-elected. The procedure in the committee is regulated by the chairman who in the case of an equality of votes has a second or casting vote. The committee is assisted in the province by the local Accountant General and at the centre by the Auditor General and the Accountant General, Central Revenues, who are not members of the committee but are invited to attend its meetings.

The scrutiny of the committee of the appropriation accounts and the audit report thereon extends to the following : (*a*) that a grant has not been exceeded, (*b*) that no money has been spent on purposes not sanctioned by the legislature, (*c*) that expenditure conforms to the authority which governs it, (*d*) that every re-appropriation has been made in accordance with the rules prescribed by the Governor General or Governor acting in his discretion or by the Finance Department, (e) to examine accounts of stores and stocks and also trading, manufacturing, and profit and loss accounts (where these are ordered to be kept by the Governor General or Governor) and the audit report thereon.[1]

The committee is concerned strictly only with voted expenditure but by convention observed ever since the introduction of the Public Accounts Committees, it deals with both voted and non-votable expenditure. Audit reports

1. Ibid.

on commercial accounts or accounts of receipts or of stores and stocks are also considered in detail.

The committee examines the representatives of the departments concerned and when necessary summons the officers more directly responsible. The committee discusses and offers its criticisms and recommendations on any matter mentioned in an appropriation account or audit report. But the committee is not an executive body ; it therefore may not disallow any item or issue an order or take disciplinary action, even if the investigation clearly shows that an irregularity has been committed. It only calls attention to the irregularities or the failure to deal with them adequately. It expresses its opinion, and records its findings and recommendations. It is left to the Finance Department and the executive to give effect to those recommendations. We said above that the British Treasury makes use of the committee's strictures to press home its warnings for economy. The Finance Department here follows a similar though milder course, and informs the audit authorities of the action taken on the committee's report.

The chairman of the committee presents its report to the legislature and moves that it should be taken into consideration. A day is usually allotted for the discussion of the report, when several important points of great interest to the general public are discussed. On this occasion excess votes on amounts over and above the authorised grants are taken. The discussion of the report can surely be made a more important affair than it is today. Such discussions made available to the public through the press would stimulate public interest in financial administration and the promotion of economy. As things are, the discussion passes off without any public interest being created.

The finance accounts are an auditor's presentation of all the government accounts. There seems to be a good deal in favour of the Public Accounts Committee examining the finance accounts also. Scrutiny of appropriation accounts by calling departmental officers for explanation and by

outspoken criticism of irregularities helps legislative financial control. But an examination of the finance accounts would be more comprehensive, as it would extend to the entire receipts and disbursements and would be in the interests of public economy. It would also be more closely followed by the legislature and the tax-payer. Finance accounts are published before the budget for the coming year is published, so as to be of use to the legislature in following the income side of the budget and appreciating the different proposals for fresh taxation or borrowing or remission of revenue.

The Public Accounts Committees are not concerned with economy but rather with regularity, i.e. with the spending of money for the purposes and in the manner prescribed by law, in order to prevent waste and extravagance. Economy is left to the administrative departments and to the Finance Department. As far as regularity is concerned the Public Accounts Committees have been useful. Referring to the work of the provincial committees in 1932-33 Sir Ernest Burdon, the then Auditor General, said : "The manner in which the business of the several Committees has been transacted has been exceedingly satisfactory and of great practical value to my department and I wish to repeat the opinion I expressed last year that in general the Public Accounts Committees exercise an increasingly effectual and salutary influence on the administration of public finance."[1] One advantage has been better budgeting for the margin of difference between estimates and actuals has decreased considerably.

Much also depends on the type of men elected to the committee and on the calibre of the members of the legislature. If the legislature wants economy, it can enforce it. No cabinet can afford to ignore the wishes of the legislature continually.

In this connection the influence of public opinion counts a great deal. The Swiss system is very economical,

1. Quoted by P. K. Wattal, *A B C of Indian Government Finance*, p. 48.

because the people of Switzerland are by nature thrifty and economical. The cry in India is for more and more expenditure ; and it is possible that in the eagerness to progress by leaps and bounds economy in administration will be sadly ignored. It is difficult for a popular government to resist the extravagant tendencies of the people. Steps must be taken to interest the people in the financial administration of the country. By giving adequate publicity to the financial business of the legislature, e.g. the budget, the general discussion on it, the voting of demands, the discussion of the Public Accounts Committee's Report, etc., the people can be educated into appreciating the financial problems of the province and the country. It is not enough to rouse oneself from lethargy, when extra taxation seems imminent. The public must exercise a continuous check on their representatives, or else we must give up pretensions to a democratic form of government.

Is the Financial System of India Efficient ?

We have seen above the different agencies and the functions they perform for the purpose of financial control. Are they efficient ? That is a question we must attempt to answer. The system followed being based on the British model which has been acclaimed the best so far devised, we may say that it is efficient. In fact the one good point of the Indian Bureaucracy has been just this, their insistence on efficiency and regularity. Financial administration depends not only on the system but on the personnel, and here again we must admit that the Services in India have served the country well. There are many improvements which may be effected, there are many modifications which will be necessary owing to differences of outlook and geographical, historical, constitutional and other factors ; but in the main the system in use so far has much in its favour and ought not to be lightly disregarded even when full self-government is a reality.

But someone may ask : Has not this efficiency been bought at too high a price ? The charge, we admit, is true. But the truth of the accusation does not affect the

results obtained. What has to be guarded against is this, that, when the cost is lowered, efficiency is also lowered. This is a great problem and in the anxiety to reduce cost, economy and adequate control may be relegated to the background. It is not easy to build a good system of financial administration, as the many attempts made in the U.S.A. and France show. A good administrative system is one of the legacies of British rule which we must not destroy.

Conclusions

This chapter may perhaps be fittingly concluded by a few suggestions.

In preparing the budget it is the new items which are carefully considered, the standing charges being subject to very little scrutiny. The result may be that expenditure on a number of items is continued without any need for it. What is required, it seems, is a periodical revision of all expenditure without waiting for Retrenchment Committees during crises and depressions, when very often expenditure is curtailed just to meet the present exigencies without any heed to systematic economy. The Estimates Committee has not been a success, nor need all the estimates be considered every year. A comprehensive inquiry into all departments by a legislative committee assisted by adequate staff and the Finance Department every three, four or five years will be more to the point. The committee should start work a few months before the estimates are consolidated in the Finance Department, so that the committee's recommendations may be immediately useful. To take the estimates by parts is to lose perspective and balance. The committee should be presided over by the Leader of the Opposition, contain members from all parties, and have power to co-opt a few members who might be specialists in some branches of finance. This committee will be able to avoid all the haste and pressure under which a Retrenchment Committee has to work. Nor should the legislature wait for some sort of crisis to investigate the

economy in the departments. This committee should work periodically, and consider not only efficient management but even the broader aspects of policy as well.

Secondly, the responsibility for collection of revenue should be entrusted to the Finance Department, as at present prevails at the centre, so that control over receipts may be strengthened through centralisation. The body that collects the revenue is more concerned about economy in expenditure ; for the balance between the two will always be present before it.

Thirdly, the concordats between audit and the executive should be made public. Audit is a semi-judicial process and all the limitations or conditions under which the audit authorities work ought to be public property. To keep the concordats confidential is to arouse unnecessary suspicion in the minds of the people.

Lastly, the public must be educated in matters pertaining to financial administration by due publicity of the various stages. After the budget speech and the general discussion on it, public enthusiasm wanes, and it is only increased taxation that provides scope for public comment. The importance of public opinion in matters pertaining to economy can never be exaggerated. It is perhaps the best of controls, for under the urge of public criticism both members of the legislature and the executive will be constrained to be more careful about their financial programmes.

PART THREE

OTHER ASPECTS OF FINANCIAL ADMINISTRATION

CHAPTER XI

RELATIONS BETWEEN THE CENTRE, THE PROVINCES AND THE INDIAN STATES

VARIETY OF RELATIONS

THOUGH federation has not yet come into existence, this chapter takes into consideration the relations contemplated by the Act of 1935 between the federal authorities and the component units—the provinces and the Indian States. All that is said about the relations between the federation and the provinces is in force today, for two reasons, first, because the present legislature and executive at the centre enjoy most of the privileges and powers of the federal legislature and executive, and secondly, because in the region of finance the system in vogue is already federal in character, even if technically it is not so.

Between the federation and its component units there must necessarily be a variety of relations—legislative, executive, administrative and financial—because the constitutional independence of the several governmental authorities and the division of powers among them are two of the distinguishing features of federation. These relations are explicitly or implicitly contained in the federal constitution which holds a position of supremacy in a federal state; but they may also be brought about by mutual agreement chiefly for administrative purposes.

Many complications are introduced in the federation outlined in the Act of 1935, owing to the wide divergence between the provinces and the Indian States. Politically they are at very different levels of democratic government. In the administrative sphere the difference is still more striking for it is only very recently that the more progressive Indian States have attempted to reorganise their administrative systems to suit modern requirements. By the Act of 1935 the provinces have no option but to join the

federation. The Indian States, however, have full freedom to enter or not; and even if they should enter the federation, they must specify in their Instruments of Accession the matters with respect to which the federal legislature may make laws for them, and then both the federal legislature and the federal executive will have their authority limited to these matters. This fact, it is obvious, will very greatly complicate the relations between the centre, the provinces and the States. What is more, the provinces and the States seem to form two kinds of federating groups, the internal government of the former being regulated by the Act and that of the latter left to their respective Rulers. With this background the relations between the federation and the component units will be better understood.

The Act lays down the legislative powers of the provinces and the federation in two separate lists and provides for a third, called Concurrent List, for matters in which both are interested and on which both may legislate,[1] though in the event of any inconsistency between federal and provincial laws the former prevails.[2] The residuary powers[3] of legislation are entrusted to the Governor General who will by public notification empower the federation or the provinces to deal with new matters as they arise. The Indian States retain control over all matters which they have not specifically surrendered to the federation in their Instruments of Accession.[4] The federation is also given the power to legislate on any item of the Provincial List, if the legislatures of two or more provinces by resolution desire that the federation should legislate on that item.[5]

Financial relations between the federating units and the federation have always been matters of controversy, for an exact division of resources to meet the functions imposed is almost an impossibility. Subventions, grants, assignments of taxes and other kindred matters are a source of continual friction in a federation. In addition there is the problem of administration of taxes; for sound administration

1. S. 100. 2. S. 107. 3. S. 104. 4. S. 101. 5. S. 103.

has to guard against extravagance and inefficiency specially in the direction of duplication of financial machinery, of double taxation and overlapping jurisdictions. As far as the Indian States are concerned, their taxing powers, except to the extent specified in the Instruments of Accession and thereby surrendered to the federation, are not limited by an Act of Parliament ; and therefore for them the problem of resources can never present any constitutional difficulties. They will share in any assignments the centre may make to the federating units.

Administrative Relations

The provinces and the Federated States must in the first place so exercise their executive authority as to secure respect for the laws of the federal legislature.[1] Clearly, otherwise, there would be confusion and disorder and continual conflict. This provision is a very general one and has therefore no special bearing on financial administration.

In the next place we may consider the provisions which relate to agency subjects. Agency subjects are those in relation to which a province or federating State performs functions as the agent of the federation. Agency functions may therefore be considered from two points of view ; the first being functions performed by the Governors of provinces, and the second those performed by the Provincial Governments.

The Governor General may require the Governors of provinces to act as his agents for the discharge of functions relating to tribal areas and, where necessary or convenient, of functions relating to defence and external and ecclesiastical affairs.[2] For all these purposes the Governors must act in their discretion.

But with the consent of the Provincial Government or that of the Ruler of a Federated State, the Governor General may entrust to them and to their executive officers, either conditionally or unconditionally, functions in regard to which the executive authority of the federation extends.[3]

1. S. 122. 2. S. 123. 3. S. 124 (1).

Further the federal legislature may confer powers and impose duties on a province or a Federated State or their officers and authorities, even on matters on which the provincial legislature has no power to make laws.[1] For these functions the provinces and Federated States are entitled to a remuneration to be fixed by agreement, and failing an agreement by an arbitrator appointed by the Chief Justice of India, so as to cover all extra costs of administration incurred in connection with agency subjects.[2] Hence all matters between the centre and the provinces are settled on a contractual basis.[3] Details connected with agency subjects have not yet been worked out into any system. For two of the largest agency functions, viz. audit conducted by the centre on behalf of the provinces and treasury work conducted by the provinces on behalf of the centre, have been considered to balance each other. There are a number of minor agency functions, e.g. in connection with the grant of arms licences, where the provinces look after the business of the centre and as remuneration are allowed to keep all moneys obtained in the course of administration.

For the administration of federal Acts in Federated States agreements may, and if required by the Instrument of Accession shall, be made between the Governor General and the Ruler ; and further the agreements must contain provisions enabling the Governor General to satisfy himself by inspection or otherwise, that the administration is carried out according to the policy of the Federal Government, and if he is not satisfied, he may, acting in his discretion, issue directions to the Ruler.[4]

The executive authority of a province and every Federated State has to be so exercised as not to impede or prejudice the executive authority of the federation,[5] which may issue directions to the provinces, if necessary. If the Ruler of a Federated State fails to fulfil his obligations, the Governor General may issue directions to him,

1. S. 124 (2) and (3). 2. S. 124 (4). 3. S. 124.
4. S. 125. 5. S. 126 and S. 128.

after considering any representations the Ruler may make.[1] The federal executive is also empowered to give directions to the provinces on matters specified in Part II of the Concurrent List or connected with the construction and maintenance of means of communication of military importance.[2] If the directions to the provinces have not been given effect to, the Governor General may then issue them as orders to the Governors of the provinces.[3]

The above has given us the provisions on the basis of which administrative relations between the centre and the federating units may be established. But as far as the financial system is concerned we must inquire into the administrative relations centering round the collection of taxes, treasuries, accounts and audit arrangements and estimates.

It is a sound principle of finance that the authority which spends the money must be responsible for securing revenue. Yet there are certain taxes where uniformity of rates and uniformity of administration are important considerations, and such taxes are levied by the centre even though the proceeds are wholly or in part assigned to the provinces. The proceeds of succession duties, terminal taxes on goods and passengers carried by railway or air, and taxes on railway fares and freights are to be distributed among the provinces and such Federated States within which that tax is leviable, in such proportion as the federal legislature may decide ; even though the task of and responsibility for levying and collecting those taxes devolves on the centre. The federal legislature is empowered to levy a surcharge on these taxes for federal purposes. Income-tax on the other hand, except proceeds from Chief Commissioner's provinces and taxes payable in respect of federal emoluments, is divisible among the centre, the provinces and the Federated States, to which income-tax is applicable, even though the tax administration is carried on entirely by the centre. On income-tax as well, the federal legislature may impose a surcharge for federal purposes only.

1. S. 128 (2) 2. S. 126 (2) and (3). 3. S. 126 (4).

Again duties on salt, federal excise and export duties may be levied and collected by the federation, but the federal legislature is at liberty to assign a part or whole of the proceeds to the provinces or Federated States to which those duties extend. In particular one half or more—the Niemeyer Award has fixed it at $62\frac{1}{2}\%$—of the proceeds from the export duty on jute or jute products is assigned to the provinces and Federated States in proportion to the amount of jute grown therein.

The 'net proceeds' of the above duties and taxes, which are the total proceeds less cost of collection, are ascertained and certified by the Auditor General of India whose certificates are final.[1]

Under the new arrangements on the introduction of provincial autonomy, treasuries belong to the provinces in which they are situated ; and hence the provinces undertake the banking business of the Central Government (where there is no office of the Reserve Bank or branch of the Imperial Bank) and keep its initial accounts. The Auditor General of India and his staff, whose expenses are borne by the central revenues, on the other hand undertakes for the provinces through the Accountant General the work of accounts compilation and audit. At present the remuneration for the one is taken to cover the other. But if and when the provinces have their own Auditor General, the problem of remuneration will have to be solved.

If the provinces administer certain subjects for the centre, then they have to undertake all the tasks relevant to such administration such as framing of estimates, watching the progress of expenditure, etc. Estimates relating to agency subjects are submitted to the local Accountant General for scrutiny and transmission to the administrative department concerned.

For better harmony among provinces the Act provides for the establishment of an Inter-Provincial Council for dealing with disputes between provinces, matters of

1. S. 144 (1).

common interest and especially the co-ordination of policy and action pertaining to a particular subject.

FINANCIAL RELATIONS

Administrative relations derive their importance chiefly from the subject of agency functions. Financial relations, however, have already assumed a large place in the financial system of India, because the provinces are placed in the unenviable position of having inelastic sources of revenue and expanding provincial requirements, because already tax disputes have arisen, and because in the past financial relations have not been too happy.

It will not be out of place at this stage to outline, what may be called, the essential features of federal finance and the types of financial adjustments resorted to for the purpose of strengthening the inadequate resources of the federating units.

There are four essential features of federal finance : (*a*) uniformity, (*b*) independence and responsibility, (*c*) adequacy and elasticity, and (*d*) administrative expediency and economy. These features a constitution framer has always to bear in mind, but it will hardly be possible to satisfy all the four requirements.

Uniformity requires that every federating unit should contribute equally to the federation. No one unit must be shown preference as against others in respect of payments made by them or contributions in one form or other given to them. The principle of uniformity while it has strong theoretical backing is difficult to apply in practice. In the first place on what grounds is the uniformity or equality of burdens to be calculated ? Is it to be based on population, or on the taxable capacity of a province or Federated State, or on both ? Secondly, not all units have the same standard of economic life or administrative progress. To demand as much from the backward as from the advanced is to lay heavier burdens on the former. Thirdly, regard must be had to existing arrangements, where expenditure

has been raised to a certain level, and where if income be reduced, expenditure may be reduced only at the cost of administrative progress.

Independence leaves to each component unit the freedom of initiative and operation, gives it financial authority unhampered by the other units or the federation in matters relating to tax legislation, levying of prescribed taxes, expenditure from its own revenues, and borrowing within the limits that may be laid down. If the unit is financially independent, it must also be responsible for its revenue, expenditure and debt. If the federation raises revenue for the units to spend, it will engender a sense of irresponsibility and consequently extravagance and wastefulness on the part of the provinces. On the other hand, financial dependence of the units on the federation will ultimately lead to political dependence. The Indian constitution provides for separate revenue resources for the centre and the provinces, and full control by them over their respective expenditure and borrowing. Yet on grounds of inadequacy of resources, this principle of independence and its concomitant of responsibility has often to be qualified, and assignments and grants have been made to the provinces and Federated States.

Adequacy and elasticity have slightly different meanings. Adequacy implies that the resources allotted to each unit are sufficient for the immediate and initial task in hand; elasticity that revenue will expand to meet future requirements of the units. To start with the provinces may have sufficient resources to balance their expenditure but with time the cost of nation-building services is bound to increase. Are the provinces assured of an expanding revenue as well ? The resources of the provinces, it is well known, are very inelastic compared to the functions which the constitution imposes on them. The revenues of the centre, however, during peace time expand more rapidly than the expenditure.

It is on grounds of inadequacy that provision has been made to secure revenues for the provinces through taxes the proceeds of which they share with the centre, e.g. succession

and stamp duties,[1] and also through grants and subventions. By a share in income-tax the units are immediately provided with extra revenue ; by the provision of taxes entirely for the benefit of the units a certain elasticity has been introduced in provincial finance.

The principle of administrative expediency and economy is very important, because no matter how satisfactory a tax may be on theoretical grounds it must be efficiently administered. On good administration almost as much as on the soundness of the tax depend the proceeds of the tax. There are certain taxes where it is expedient to have uniformity of rates, e.g. income-tax or where the complications and difficulties would be too serious unless a central organisation administered it ; and in each case on grounds of expediency or economy the taxes are entrusted to the centre, even though the constituent units will derive the full benefit from them. Unless the units can efficiently administer a tax, they should not be entrusted with it.

The result of the consideration of the essential features of federal finance shows that very great difficulties stand in the way of realizing them *in toto*. What happens in practice is that the resources are first divided into central and provincial on the principle of uniformity and independence ; and then allowance is made for deficiencies in adequacy, elasticity and administrative economy by various devices, e.g. by centralizing the administration of certain taxes and distributing the proceeds among the constituent units. This goes against the principle of responsibility ; for there is no incentive to economy where funds are obtained without trouble. Practical finance, however, can only endeavour to satisfy all the theoretical requirements.

The resources of the centre and the provinces are determined by the Legislative Lists. Separate sources of revenue are allocated to the centre and the provinces ; in addition the provinces share in the proceeds of certain taxes levied and collected by the centre and some of them receive

1. Vide S. 137.

cash grants from the centre. Further adjustments on the inauguration of provincial autonomy were the decentralisation of balances, and the consolidation and cancellation of pre-autonomy debt.

Legislative Lists. There are three Legislative Lists, the federal, the provincial and the concurrent. The executive authority for the subjects in the Federal List is vested in the centre, for those in the other two lists in the provinces. The executive authority includes the financial power to receive and spend moneys in connection with the subjects of the lists. Further, moneys raised or recovered by the federation or the provinces go to form their respective revenues. Hence receipts from federal subjects or expenditure on them are federal, receipts from or expenditure on subjects in the Provincial and Concurrent Lists are provincial.

The Federal List includes the following main sources of revenue :—

1. *Customs including export duties.*
2. *Excise duties on tobacco and other goods manufactured or produced in India except those on the Provincial List.*
3. *Corporation tax.*
4. *Salt.*
5. *State lotteries.*
6. *Taxes on income other than agricultural income.*
7. *Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies as well as taxes on the capital of companies.*
8. *Duties in respect of succession to property other than agricultural land.*
9. *Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, proxies and receipts.*
10. *Terminal taxes on goods or passengers carried by railway or air, taxes on railway fares and freights.*
11. *Fees in respect of any of the matters in this list, but not including fees taken in any court.*

The provincial sources are :—

1. *Land revenue.*
2. *Excise duties on the following goods manufactured or produced in the province, namely, (a) alcoholic liquors for human consumption ; (b) opium, Indian hemp and other narcotic drugs and narcotics ; non-narcotic drugs, (c) medicinal and toilet preparations containing alcohol or any substance included in (b) of this entry.*

3. *Taxes on agricultural income.*
4. *Taxes on lands and buildings, hearths and windows.*
5. *Duties in respect of succession to agricultural land.*
6. *Taxes on mineral rights, subject to any limitations imposed by any Act of the Federal Legislature relating to mineral development.*
7. *Capitation taxes.*
8. *Taxes on professions, trades, callings and employments.*
9. *Taxes on animals and boats.*
10. *Taxes on the sale of goods and on advertisements.*
11. *Cesses on the entry of goods into a local area for consumption, use or sale therein.*
12. *Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.*
13. *Rates of stamp duty in respect of documents other than those specified in the provisions of the Federal List.*
14. *Dues on passengers and goods carried on inland waterways.*
15. *Tolls.*
16. *Fees in respect of any of the matters in this list, but not including fees taken in any court.*

The States surrender to the federation only such powers of legislation, on financial items or otherwise, as are mentioned in the Instruments of Accession. However, corporation tax in particular cannot be levied by the federation in any Federated State until ten years have elapsed from the establishment of the federation, and even then it is left to the Ruler of a Federated State to elect to pay in lieu of the tax being collected in his State, a contribution equal to the net proceeds which it is estimated would result, if the tax were levied. The power and responsibility to determine the amount belongs to the Auditor General of India ; and the Ruler must cause to be supplied to the Auditor General such information as he may require. An appeal from the decision of the Auditor General may be made to the Federal Court whose decision will be final.

Double Taxation. In every federation one of the evils to be guarded against is double taxation. In their search for more revenue the provinces will have to levy more taxes, and already taxes imposed by certain provinces have been challenged in court. For example, the U.P. Employments Tax and the Bombay Urban Immovable Property Tax were said to infringe on income tax, because they were graduated.

In dealing with the financial system in the federation it will not be out of place to mention briefly the relations of the federation and the States with the Crown Representative. The federation, at present the centre, has to pay to him every year such sums as he may require for the exercise of his functions in relation to Indian States. The Crown Representative will continue to receive cash contributions, loan repayments and payments from Indian States ; and he is empowered to place such sums at the disposal of the federation. He is also empowered to remit their contributions, and to commute their other obligations into cash payments. Payments which the Crown Representative has to make to the Indian States are to be charged on the revenues of the federation.

Borrowing. The centre and the provinces may borrow on the security of their respective revenues in such amounts and on such guarantees as may be fixed from time to time by their respective legislatures. The Secretary of State, however, until the federation is established, will contract all sterling loans on behalf of the Governor General in Council.

The federation may make loans to or give guarantees to loans raised by a province ; and such sums will have to be charged on the federal revenues. A province may not without the consent of the federation borrow outside India ; and similarly without such consent it cannot raise a loan, if any part of a loan by the federation or in respect of which federal guarantees are attached has yet to be paid. However, the Central or Federal Government may not withhold such consent without good reason. The federation may, subject to conditions it may impose, make loans to, or guarantee the loans of, a Ruler of a Federated State.

Financial Adjustments

Ever since Lord Mayo started his scheme of decentralised finance, the problem of a proper division of resources in India has not been solved to the satisfaction of all the provinces. For a few years from 1921 the Meston Settlement was in operation by which the

provinces made contributions to the centre to cover up the loss of revenue occasioned by the division of revenues under the Reforms scheme. Later, however, the central finances improved and the contributions were discontinued. Sir Otto Niemeyer was appointed in 1935, before the commencement of provincial autonomy, to make recommendations, after reviewing the present and prospective budgetary positions of the Government of India and the Provincial Governments, on matters connected with the distribution of proceeds from income-tax and the jute export duty, and on grants to provinces. Adjustments of debt relations were also recommended by him. Government accepted his recommendations.

Assignments from Central Taxes. Under the constitution proceeds from export duties and income-tax may be assigned to the provinces. As was mentioned earlier, 62½% of the net proceeds of the jute export duty is distributed among the provinces of Bengal, Bihar, Assam and Orissa in proportion to the amount of jute produced in each. The recommendations under income-tax have been modified recently and so the present position only is outlined. The full assignment is given by the Act at 50% of the net proceeds of income-tax other than corporation tax, after deducting proceeds attributable to Chief Commissioners' provinces or in respect of federal emoluments. The assignment is distributed among the provinces in the following proportion : Bombay and Bengal 20% each, Madras and the U.P. 15% each, Bihar 10%, the Punjab 8%, the Central Provinces and Berar 5%, Assam, Orissa and Sind 2% each and the N.W.F.P. 1%. However the full assignment of 50% will be reached only in the eleventh year after the inauguration of provincial autonomy. For the first five years from the net proceeds Rs. 4½ crores will be deducted and only half of the remainder distributed among the provinces. For the next five years the sum retained by the centre will be reduced by 1|6th each year, so that only in the eleventh year will the provinces receive their full share of 50%. The Governor General, however, in any year of the second quinquennium may direct that the sum retained by the centre shall be the

same as in the previous year, and in that case the second period will be correspondingly extended.

Grants. Further assistance to certain provinces is through grants.[1] These grants are in the nature of subsidies i.e. payments to be made in accordance with statutory provisions and without any conditions, rather than subventions which are grants for specific purposes. Grants to certain provinces are as follows :

(*a*) *United Provinces* :	*Rs.* 25 *lakhs per annum for* 5 *years from* 1*st April,* 1937.
(*b*) *Assam* :	*Rs.* 30 *lakhs in each year.*
(*c*) *N.W.F.P.* :	*Rs.* 100 *lakhs in each year.*
(*d*) *Orissa* :	*Rs.* 47 *lakhs for* 1937-38, *Rs.* 43 *lakhs in each of the next five years and Rs.* 40 *lakhs thereafter.*
(*e*) *Sind* :	*Rs.* 110 *lakhs for* 1937-38 ; *Rs.* 105 *lakhs in each of the next* 9 *years ; Rs.* 80 *lakhs in each of the next* 20 *years, Rs.* 65 *lakhs in each of the next* 5 *years, Rs.* 60 *lakhs in each of the next* 5 *years, Rs.* 55 *lakhs in each of the next five years.*

As all these grants are subject to no conditions, the principle of financial independence is preserved, even though the corollary of responsibility is surrendered. Besides these subsidies there are also subventions to the provinces, e.g. grants in connection with road development, rural development, development of the handloom industry and of the sericulture industry, and grants from the sugar excise fund.

Debt. With the introduction of provincial autonomy provincial balances have been separated from those of the Central Government. Before 1937 the Central Government acted as bankers to the Provincial Governments. Now each province makes it own arrangements with the Reserve Bank for the conduct of its financial business ; each province maintains separate balances with the Bank. Hence the Central Government has handed over to the provinces all balances previously held by it, in regard to debt, remittance and deposit transactions of an intrinsically local

1. Vide S. 142.

nature[1] or definitely connected with provincial functions. The provinces consequently now bear the liability for them ; and may use them for the purpose of keeping adequate cash in the treasuries or minimum balances with the Reserve Bank ; and even for financing capital programmes.

In order to start the provinces with a good financial position the debt of certain provinces has been cancelled to a certain extent. Bengal, Bihar, Assam, N.W.F.P. and Orissa have had all debt contracted before 1st April, 1936 cancelled ; in the case of the C.P. all debt on account of revenue deficits up to 31st March, 1936 and about Rs. 2 crores of pre-1921 debt have been cancelled.

Further all pre-autonomy debt has been consolidated. The arrangements for borrowing from the Provincial Loans Fund were unsatisfactory, because the periods for which that fund was lent to the provinces and those in which the fund's capital is repayable to the market differed considerably. To simplify the present relationship pre-autonomy debt has been consolidated into a single debt for each province carrying a single rate of interest. The amounts due to the provinces as a result of the decentralisation of balances were not paid fully in cash but were adjusted against the pre-1921 debt which the provinces owed to the centre. In this adjustment as the rate of interest on the debt was about 3½% and the market rate in 1937 much lower, the provinces were the gainers. The balance of the pre-1921 debt and all other pre-autonomy debts were consolidated, repayable in 45 years. The rate on the consolidated debt varies from province to province between from 4 to 4½%.

The result of all the financial adjustments—assignments, subsidies, subventions and debt adjustments—has been to increase the resources of the provinces. Naturally some provinces have obtained greater benefits than others, and apparently the principle of uniformity seems violated. Yet the backward provinces obviously must receive more, if they are ever to improve and keep pace with the more advanced.

1. e.g. interest carrying provident fund deposits and interest free balances of municipal and other local authorities.

CHAPTER XII

GOVERNMENT AND THE RESERVE BANK

THE Reserve Bank has been established to manage the currency and credit system of the country. It possesses a pre-eminence in the banking structure in virtue of the fact that it is the central bank of the country and banker to the Central and Provincial Governments. For that very reason it maintains very close relations with the provincial and particularly the central Finance Departments. The constitution and functions of the Reserve Bank which has five offices, at Bombay, Calcutta, Madras, Delhi and Rangoon, are determined by the Reserve Bank Act of 1934. Here we are concerned with the Reserve Bank in relation to the system of financial administration.

Though a shareholders' bank, the Governor General has certain powers with respect to it. He appoints the Governor and Deputy Governors of the Bank—should occasion arise an officiating Governor or Deputy Governor as well—and fixes their salaries and terms of office. If in his opinion the Bank fails to carry out any of the obligations imposed on it by the Reserve Bank Act, he may declare the Central Board of the Bank superseded, and thereafter take any action he may deem necessary. In nominating directors to the Bank or removing directors nominated by him, the Governor General has to exercise his individual judgment.

As governments' banker, it has not only the obligation[1] but the right to transact government business in India. The Central and Provincial Governments, on their part, on such conditions as may be settled by agreements, are required to entrust the Bank (*a*) with all their moneys, remittance, exchange and banking transactions in India, and (*b*) with the management of the public debt and the issuing of any new loans ; and in particular, to deposit, free of interest, all

1. Reserve Bank Act, S. 20.

their cash balances with the Bank, though where the Bank has no branches or agencies, the governments may carry on their money transactions and hold such cash balances as they may require. If no agreement is reached, the Governor General in Council decides what the conditions should be.[1]

In accordance with the Reserve Bank Act, the Reserve Bank has also reached an agreement with the Imperial Bank of India for the purpose of agency functions. The Imperial Bank is in consequence the sole agent of the Reserve Bank at all places in British India, where there is a branch of the Imperial Bank,[2] and no office or branch of the Banking Department of the Reserve Bank. The Imperial Bank will remain the sole agent for the first fifteen years, and thereafter the agreement may be terminated after five years' notice on either side. The remuneration for the present is fixed at 1|16 of one per cent. on the first Rs. 250 crores, and 1|32 of one per cent. on the remainder of the total of the receipts and disbursements dealt with annually on government account. The Imperial Bank was required not to close down any of its branches and in return was to receive Rs. 9 lakhs per annum during the first five years of the agreement, Rs. 6 lakhs during the next five, and Rs. 4 lakhs during the next five.[3]

The Reserve Bank has entered into separate agreements with the Central and Provincial Governments to fix the terms and conditions on which government business will be transacted. Being in close touch with the requirements of both the market and the government, the Bank is in the best position to advise the Finance Department on whom devolves the responsibility of handling the financial work of the government. The Bank undertakes on behalf of the different governments[4] their banking, revenue and remittance transactions, keeps their moneys on deposit though free of interest, issues treasury bills and loans for them in addition to

1. Ibid., S. 21.
2. At the time of the inauguration of the Reserve Bank.
3. Ibid., S. 45 and the third schedule.
4. And of such Indian States as are approved by the Governor General in Council.

managing their public debt, and in the field of accounts acts as a sort of clearing house for adjustments among them. As remuneration for work done, each government maintains a certain minimum balance with the Bank at all times.

We may, therefore, consider the Reserve Bank in relation to government business from five angles: exchange, currency and remittance, banking, accounting and debt transactions. We shall take each in turn. The management of public debt will, however, be dealt with more fully in the next chapter.

EXCHANGE

The Reserve Bank Act requires the Bank to maintain the ratio at 1s. 6d. per rupee. Further, as no bill or amendment regarding the functions of the Bank may be introduced or moved in either chamber of the central or federal legislature without the previous sanction of the Governor General in his discretion,[1] the ratio will be controlled entirely by the Governor General. Secondly, the Central and to some extent the Provincial Governments require to remit sterling to England.[2] This task of remittance is left to the Reserve Bank, being one of the important banking functions. Sterling remittances, however, are only undertaken for the centre, and so every payment is first taken against the central balances and then adjusted in the provincial balances. The Bank is also authorised to have dealings in sterling[3] with the scheduled banks. Since the outbreak of war it also assists through its Exchange Control Department the Central Government in exchange control, the purpose of which is to conserve the foreign exchange of the country for war purposes and to prevent it falling into enemy hands in one way or another.

CURRENCY AND REMITTANCE

The power to issue metallic currency rests with the Central Government, the Bank being only responsible for the

1. S. 153. 2. For meeting 'home charges', cost of stores, etc.
3. And only in sterling.

management. Surplus rupees[1] over the required reserve are surrendered to the Governor General in Council in exchange for bank notes, gold or securities. Similarly if the reserve of rupees falls below the prescribed amount, the Reserve Bank receives rupees in return for payment in legal tender value. The assets in the Issue Department need not be kept in any specified places ; what is required is that the total reserve should not fall below the total amount of notes in circulation. As the Bank is entrusted with resource[2] work, it keeps the reserve for the purpose in currency chests scattered over the country. By means of these currency chests, which, where there are no banking offices, are placed in treasuries or sub-treasuries, remittances are greatly facilitated ; for a transfer from the treasury or bank balances *to* a currency chest in one place is offset by a transfer *from* a currency chest to the treasury or bank balances in another place. Prior to the Bank coming into existence this resource work was performed by the Controller of the Currency, whose functions the Bank has taken over.

The Reserve Bank undertakes remittance work for the public and the government. There were five kinds of remittances till recently—telegraphic transfers, bank drafts, currency telegraphic transfers, supply bills and remittance transfer receipts, of which the last was exclusively on government account for transfers to the public or between government departments. The first two were for transfers between places where the Bank was represented, and the second two between places where the Bank was not reperesented and where, therefore, the treasury was called upon to perform remittance functions. Telegraphic and currency telegraphic transfers were effected by telegram ; bank drafts and supply bills were their mail equivalents.

From 1st October, 1940, the issue of currency telegraphic transfers, supply bills and remittance transfer receipts have been discontinued, and changes introduced be-

1. Over 50 crores or 1|16th of the assets.—Vide Reserve Bank Act, S. 36 (1)
2. Vide Ch. VIII, *Resource.*

cause "it is considered desirable to standardize remittance facilities throughout the country, to simplify the accounting procedure involved in the accounts of the Central and Provincial Governments and to effect reductions in rates and extensions in facilities."[1]

Hence for the public there are now available telegraphic transfers and bank drafts whether the transfer is effected through a branch of the Bank or the treasury. For remittance on government account the Reserve Bank of India Government Drafts have been introduced.

BANKING

As is natural the bulk of the Bank's work for the governments is under this head. With the inauguration of provincial autonomy certain changes were necessitated and the system outlined below is in force today.

The Reserve Bank according to agreements with the Central and Provincial Governments and the provisions of the Reserve Bank Act[2] carries on the general banking business of these governments, that is the receipt, collection, custody, payment and remittance of moneys. Every government is required to keep all its cash balances with the Bank free of interest and to see that these balances do not fall below an agreed minimum. Should a government anticipate a fall below this minimum, it must, either by taking ways and means advances from the Bank or issuing treasury bills, replenish its balances. In theory the minimum must be kept intact at all times ; in practice it suffices if it is maintained at the close of business on each Friday.[3] Should the balance fall below the minimum the Bank is entitled to charge interest on the shortage. For the banking business the Bank receives no remuneration but the interest it can earn on the minimum balances is taken to remunerate it for

1. Booklet on Remittance Facilities in India and Burma issued by the Reserve Bank of India, p.3.
2. And also in accordance with and subject to such orders as may from time to time be given by the Central and Provincial Governments.
3. During the rest of the week a slightly lower minimum may be maintained.

this service. In addition of course the Bank has the advantage of holding all government balances free of interest. The minimum balance required to be kept by each government is fixed by agreement with reference to its annual turnover of receipts and disbursements.

The Bank receives and collects moneys due to the government, keeps them in safe custody, and to the extent of the government's credit on its books makes payments on its behalf. Again while government's spending is continuous throughout the year, its revenue comes in at special seasons owing to the preponderance of agriculture in the country. To enable it to tide over the intervening periods when cash balances are low the Bank makes ways and means advances to the government. Such advances bear interest but are not available for more than three months at a time.[1]

Accounts

The keeping of accounts is a consequence of the banking functions. The Central Government, as we have said before,[2] operates on all offices of the Reserve Bank and branches of the Imperial Bank acting as agents of the Reserve Bank. The Provincial Governments, however, have their operations confined to those offices and branches which fall within the area of their respective jurisdictions.

The treasuries in a province belong to the province, and so the cash transactions of the Central Government which occur in treasuries, are taken against the provincial balances in the first instance. Such transactions are adjusted by the Accountant General periodically (weekly, fortnightly or monthly as may be arranged with the provinces) in the bank balances of the Central and Provincial Governments.[3] This incidentally necessitates the making of arrangements by the provinces to provide the means for meeting these transactions. With the decentralisation of balances the provinces have become responsible for the ways

1. Reserve Bank Act, S. 17 (5).
2. Vide Ch. VIII, *Ways and Means Advances and Treasury Bills.*
3. Through the C.A.S. of the Reserve Bank.

and means position in regard not only to their revenue and capital expenditure, but also a large body of transactions of a local nature connected with debt, deposit and remittance heads.

As the Reserve Bank keeps separate balances for the centre and the provinces, it also keeps two sets of accounts, as do the treasuries, for compiling government accounts. For adjustments between the centre and the provinces, the Reserve Bank provides clearing house facilities through its Central Accounts Section at the Calcutta office. Hence we may consider in turn the three organisations of the Reserve Bank which deal with the cash and adjustment transactions of the Central and Provincial Governments.

Offices and Branches of the Reserve Bank. Two sets of accounts of cash transactions undertaken by them are kept, one for the centre and another for the provinces. Transactions pertaining to the centre are taken directly to the central account ; all other transactions are taken to the provincial account. The result is that the provincial account contains transactions relating to other provinces. This necessitates adjustments which are made through the C.A.S. of the Reserve Bank at Calcutta by the Accountant General of the province where the transaction occurs.

Daily the Bank sends separate statements of transactions in the two accounts, with all the supporting vouchers, to the Treasury Officer and at provincial headquarters to the local Accountant General. At the end of the month the balances in the two accounts are transferred to the C.A.S. of the Reserve Bank. For ways and means purposes the C.A.S. is kept informed of the balances of each government for each day and for the week.

Branches of the Imperial Bank. The branches of the Imperial Bank act as agents of the Reserve Bank in places where there is neither an office nor a branch of the Reserve Bank. As above, two sets of accounts are kept ; and separate daily statements of accounts with all supporting data are sent to the Treasury Officer or the local Accountant General.

The Branch Bank is required specially to see that the total receipts and disbursements of the two accounts in the daily statements sent to the Treasury Officer or Accountant General agree with the totals shown in the schedule forwarded to the Central Accounts Office of the Imperial Bank at Calcutta. To facilitate classification of transactions in the two sets of accounts, the Treasury Officer and departmental officers, who are authorised to pay or draw money, are required to see that every chalan, bill or charge is marked prominently to show whether it refers to the centre or the provinces.

As with the Reserve Bank Offices, all adjustments are carried out by the Accountant General through the Central Accounts Section. The branches of the Imperial Bank under no circumstances deal directly with the C.A.S. but through their own Central Accounts Office at Calcutta, which effects all adjustments that are required.

The Central Accounts Section. The C. A. S. at the Calcutta Office of the Bank, though in charge of an Accountant, is directly under the control of the Manager. It is divided into two main parts —one for railway accounts and the other for government, both central and provincial, accounts.

We saw above that to the provincial account are taken all transactions which cannot be taken directly to the central account. The C. A. S. therefore exists for two purposes : first, to keep the complete accounts of the balances of the different governments, and secondly, to act as a general clearing house for adjustments between the centre and the provinces and between province and province. All adjustments and payments required to be made are advised by the Accountant General[1] where the transaction originates to the Accountant of the C.A.S. of the Reserve Bank who will pass the necessary entries in the accounts of the government concerned. Advices of adjustments are forwarded to the C.A.S. at convenient intervals up to the 7th of the following month, while those for the month of March even up to 15th April.

1. Or other authorised Accounts Officer.

The C.A.S. at the close of business each day forwards to the Accountant General concerned a memorandum in a prescribed form showing details of transfers effected against the balance of the Central or Provincial Government. At the close of the month a statement of the closing balances of each government in the books of the Bank, after taking into account all cash transactions at all the offices and branches and agencies and all adjustments, are forwarded to the Accountant General concerned.

The Reserve Bank also communicates by telegram to the different governments their weekly balances immediately after the week ends ; and if needed, will communicate the daily balances as they stand on the books at the close of each working day.

As far as compilation of accounts by the Reserve Bank is concerned, the system of central compilation has been followed. The plea was put forward that for the major provinces the compilation should be made at the branch of the Bank situated at provincial headquarters, so that the Provincial Governments may be fully informed about their balances at a very early date, if not at the end of every day. But the Reserve Bank was opposed to this branch compilation and pressed very strongly for a central compilation at its head office in Calcutta. The system was to be tried for twelve months before the issue was raised again. As the system seems to have worked satisfactorily, the matter has been dropped.

The C.A.S. also carries out all adjustments of transactions arising in non-bank treasuries (which also keep two sets of accounts) through the Accountant General.

Debt

The Reserve Bank manages the public debt of the centre and the provinces. The Finance Departments have a general control over the administration of the debt for which their respective governments are responsible. But the actual administration of public debt and the maintenance of

accounts is carried on by the Public Debt Office of the Reserve Bank. Under debt we might classify the operations of the Bank as relating to the issue of new rupee loans, collection and payment of interest and principal, the consolidation, division, conversion, cancellation and renewal of securities, and the keeping of the required registers and books of accounts. Recently the repatriation of sterling debt has also been one of its important activities.

For the work of management the Bank, according to agreement, receives Rs. 2,000 per crore per annum on the amount of the public debt at the close of the half-year for which the charge is made.

The Bank issues loans for the centre and the provinces. Being in close and constant touch with the market, the Bank is able to advise the Finance Departments as to the best time for floating a loan and the most favourable rate that may be obtained. Further, as it manages the public debt and floats the loans for all the governments, it is able to secure that no competition between one government and another takes place.

Treasury bills and ways and means advances are the means adopted to bridge the gap in the ways and means position of the government. These treasury bills are also issued by the Bank for the government concerned.

The procedure for floating new loans and treasury bills, and the organisation and procedure for the administration of public debt is dealt with in the following chapter.

The Reserve Bank is also the sole agent for investments by government, either of funds belonging to government or managed by them, and charges a commission for such transactions. But it collects interest and repayments at maturity without any charge.

The Reserve Bank and the Business World

The foregoing has shown us the position which the Bank holds in its relation with the different governments. It acts as their general financial adviser, performs all their

banking requirements and manages their public debt. Hence the Reserve Bank has an intimate knowledge of the financial position of government.

But the Reserve Bank forming, at the same time, the apex of the banking and credit structure of the country, and looking after the currency operations of the government, has a first-hand knowledge of the needs of the money market, and by its open market operations, its discount rates and other ways regulates the market. The Reserve Bank co-ordinates the financial activities of the government with the money market and is therefore able to harmonise the interests of both. Besides it is the medium by which government comes in contact with the business world. Managing both currency and credit, it is able to give a certain elasticity to the money market, so that seasonal stringency, so characteristic of the period before the establishment of the Bank, has disappeared. The Reserve Bank also comes in contact with the business world through its sterling transactions and the maintenance of the sterling ratio.

CHAPTER XIII

PUBLIC DEBT

THAT public debt is an important problem of public finance cannot be gainsaid. It is a subject that has tremendous social and economic significance and calls for skill, prudence and foresight in dealing with it, for public debt is of various kinds, for different purposes, with various conditions attached to it.

There is a temptation for every government to resort to loans when it is in difficulties and thus shift on to future generations what should properly be borne by the present one. The government is further helped in this step by the lack of scrutiny on the part of the legislature of anything that does not immediately affect the tax-payer. Democracies are spendthrifts; if government decides to increase expenditure on a particular service which has the favour of the house, there will be tremendous applause, even if such a step is in the long run not in the best interests of the state.

To call for carefulness in floating loans is not to deny that there may be occasions on which they are not only feasible, not only desirable, but even necessary. But in every case where the government resorts to borrowing it must take great care to see that there are sound reasons for so doing.

In India increase of expenditure is inevitable. We are a backward country struggling politically and economically to come to the front rank of nations. Nation-building services have to be built up ; nation-defending services[1] have also to be cared for. Our public debt has been rising steadily, yet it has this good feature that it very largely consists of productive debt.

The total public debt of India is shared between the centre and the provinces. On 31st March, 1937, i.e. on the

1. A Navy and an Air Force are rather expensive items!

eve of provincial autonomy, it was Rs. 1,209 crores. Of this Rs. 1,179 crores pertained to the former and Rs. 30 crores to the latter. The central debt included Rs. 138 crores which were utilised in making advances to the provinces. Hence the true central and provincial debt was respectively Rs. 1,041 crores and Rs. 168 crores. On 31st March, 1940, three years after provincial autonomy came in force, the total debt of India was Rs. 1,315 crores, of which Rs. 1,147 crores were central and Rs. 168 crores provincial.[1]

Classification of Debt

Debt is classified in India as (*a*) permanent or funded debt, (b) temporary or floating debt, (*c*) unfunded debt and (*d*) loans from the Central Government. Permanent debt includes debt which at the time of issue has a currency of more than twelve months. The capital is either repayable at the government's will or after a fixed number of years; in the first case it is called interminable funded debt, e.g. 3½% Government Promissory Notes, and in the second terminable, e.g. the 3½% 1947-57 loans which must be repaid at any time between 1947 and 1957 by giving short notice. Floating debt is debt of a purely temporary nature, repayable within twelve months, e.g. ways and means advances by the Reserve Bank or treasury bills. Floating debt is unfunded debt; yet here in India the term 'unfunded' is reserved for certain interest-bearing obligations of the Central Government as post office cash certificates, savings bank deposits, State Provident Funds, etc. In the provinces instead of unfunded debt there is the division "loans from the Central Government" in which are included advances from that government not cancelled or consolidated. Permanent debt may be either in sterling or in rupees according as the loan is floated in London or in India. No provincial loans, however, are in sterling.

1. The public debt of India is about six times the annual revenue of India. Per capita indebtedness is about Rs. 43. On 31st March, 1941, (the last year for which actual figures are available) the total debt of India was Rs. 1,256 crores, of which Rs. 1,111 crores were central and Rs. 145 crores provincial.

Of the total debt on 31st March, 1940, Rs. 886 crores formed the permanent debt, Rs. 122 crores the central loans to the provinces, Rs. 57 crores the floating and Rs. 251 crores the unfunded debt. The permanent debt was divided into sterling debt amounting to Rs. 425 crores[1] and rupee debt of Rs. 461 crores.[2]

The distinction between permanent, floating and unfunded debt is rather arbitrary. Much of the floating debt is renewed every three months with great ease and therefore seems not to be very different from permanent debt. When, however, it is felt that repayment of floating debt within a reasonable time is not possible, the wisest course is to fund it. Hence the distinction between funded and unfunded though rather vague may be of some use. Secondly, unfunded debt is floating debt, and the classification in Indian finance that tends to distinguish between the two is also arbitrary. By floating debt is meant borrowing to assist the government's ways and means position ; by unfunded all other debt obligations which cannot be classed either as permanent or floating.

From the economic point of view there are two classifications which are very important : (*a*) productive and unproductive debt, and (*b*) internal and external debt, the first because it has reference to the objects of expenditure, and the second because of its reactions on the internal economic structure of the country. Productive debt is debt on expenditure which yields a return on the capital assets which it brings into existence ; unproductive which yields no monetary return.[3] Productive debt from the economic point of

1. Converted at 1s. 6d.
2. Of the total debt outstanding on 31st March, 1941, Rs. 908 crores formed the permanent and floating debt, Rs. 120 crores the central loans to the provinces and Rs. 228 crores the unfunded debt. Of the abovementioned permanent and floating debt, sterling debt amounted to Rs. 341 crores and rupee debt to Rs. 567 crores (including a little over Rs. 2 crores of interest-free debt).
3. By far the greater part of Indian public debt is productive. Very large amounts have been spent on railways and irrigation works (about Rs. 800 and 150 crores respectively). In the unproductive debt as much as Rs. 250 crores is due to the contributions made by India to Great Britain during the last war. As most of our debt is productive the burden on the taxpayers is not at all heavy.

view gives no cause for alarm ; unproductive debt, however, is a dead weight on the country's finances. Yet there may be occasions when such unproductive debt is necessary, e.g. to prevent an invasion of the country or in the case of such a backward country as ours for primary education. Unproductive debt requires close scrutiny. To cover up budget deficits or for expenditure on objects which are not a necessity and which yield no return, borrowing is often resorted to, and such borrowing must be closely watched specially so because the legislature is apt to give in to the executive where no immediate burdens are imposed.

Internal debt is that held by nationals. As interest payments do not leave the country, there is only a re-distribution of the national income. External debt is held by non-nationals ; money leaves the country and so affects the balance of payments. As ultimately such payments are in goods and services, external debt involves a drain on the country's resources. But here again, external debt may be necessary for economic development, specially when internal capital is shy. Most of the external debt of India is in sterling and held by the United Kingdom.

Floating Debt

Ways and means advances by the Reserve Bank and treasury bills form the floating debt of India. In a previous chapter[1] we saw that in executing the budget the administration has to make payments throughout the year. Revenue on the other hand does not come in evenly enough or in sufficient amounts to make the required payments. By the end of the year revenue and expenditure will normally balance each other ; but in the meantime government must provide itself with funds to meet its obligations as they arise. In India current revenue generally falls short of expenditure during the period from April to December, most of the revenue coming in between January and March. The government resorts to ways and means advances and

1. Vide Ch. VII.

treasury bills to tide over such temporary difficulties pending the collection of revenue.

Ways and means advances, taken from the Reserve Bank, have a currency of not more than three months, though they may be paid back by taking other ways and means advances. Usually such advances together with interest accruing on them are paid back in good time, at any rate before the end of the year.

Treasury bills are issued to the public and have a currency from three to six, nine or twelve months, though usually for three or six months. Treasury bills may be and are renewed ; and thus part of the floating debt is really permanent debt kept in a floating form.

Ways and means advances are used if the amount required is small or if the period is less than three months. Treasury bills[1] are more suitable when the period for which borrowing is necessary exceeds three months, though much will depend on the state of the money market as it is likely to be at the time of repayment. Ways and means advances have this great advantage that they can be repaid at any time, and interest is calculated only on the amount actually utilised. They are like overdrafts on the government account. Treasury bills are repayable only at maturity and hence interest has to be paid for the whole period. Whether ways and means advances should be taken or treasury bills issued will be regulated by the interest charges, government's determination being to keep these as low as possible.

Unfunded Debt

The total amount under this head on 31st March, 1940 was Rs. 251 crores, made up of State Provident and Pension Funds, post office cash certificates and savings bank deposits.[2] State Provident Funds need hardly any explanation ; these are provident funds for the benefit of government

1. Issued for the first time in 1917.
2. In the provinces only Provident Funds, as S. B. Deposits and P.O.C.C. belong exclusively to the centre. On 31st March, 1941, unfunded debt amounted to Rs. 228 crores.

employees. Large amounts are in government custody and as the repayments are generally much less than the accumulation, government has large funds at its disposal to aid it in its capital works programme.

Post office cash certificates and the savings banks were started to tap the savings of the small investor. No single person can invest more than Rs. 10,000 in the former and Rs. 5,000 in the latter. This form of investment appealed to the middle class investor particularly, and from 1924 to 1936 therefore there was a continuous rise in the balances under these heads. Post office cash certificates were eagerly bought up till 1935-36 in which year the investments amounted to about Rs. 66 crores. After that date there was a gradual reduction in interest rates; repayments became heavy and now exceed the issues in a given year. Savings banks deposits have also shown a continual rise, reaching their peak in 1938-39 when nearly 81 crores were obtained from these deposits. When the rates of interest were lowered, the rate of increase of these deposits fell off.

Post Office Cash Certificates. These were issued for the first time in 1917. They run for five years, at the end of which the principal is repaid with compound interest, though the holder has the option to demand payment at any time on foregoing the interest that has accrued or some part of it. The certificates[1] are for sale all the year round and at all post offices doing savings bank business. No income-tax is payable on these certificates. On 31st March, 1941, the amount outstanding was only Rs. 49 crores. The great disadvantage of postal cash certificates is that during a panic or an emergency repayments may be demanded on a large scale, thus causing serious embarrassment and anxiety to government. The certificates are therefore deposits at call, or as they have been termed " currency notes bearing interest."

Postal Savings Bank Deposits. These have risen continuously since 1924; and when interest rates were

1. The certificates are issued at the issue price of Rs. 10, 50, 100, 500, 1,000, 5,000 and 10,000.

lowered only the rate of increase fell off. The sum outstanding on 31st March, 1941, was placed at Rs. 59 crores. This large sum is available to government for their ways and means or capital programmes. The difference between the deposits and withdrawals during the year may be considered as a sort of loan at a low rate of interest[1] and is therefore very helpful for the ways and means position. The idea of the postal savings bank is to attract the savings of the small investor. As postal facilities spread in the rural areas, more people will surely begin to place their moneys on deposit in these savings banks, which even at present have succeeded in promoting thrift and are popular with all classes.

Permanent Debt

Permanent debt consists of terminable and interminable securities. The latter are those on which government pays interest without the obligation to repay the principal on a specified date or within a specified period. Terminable securities are short-dated, medium-dated and long-dated depending on the period of currency, at the end of which the principal has to be repaid. Most of the government loans before the World War of 1914-18 were interminable.

Government securities may be held in three main ways : (*a*) Stock, (*b*) Bearer Bonds and (c) Promissory Notes. The first is a certificate granted to the holder that he has been registered in the books of the Public Debt Office as being the owner of a specified amount of government stock. The stock certificate cannot be negotiated ; transfer is effected only by a transfer deed. Hence the certificate is immune against loss by fire, theft, or other eventualities. None besides the owner can get any value for it. Interest is paid by warrants payable at the Reserve Bank or a branch of the Imperial Bank or a treasury.

Bearer Bonds on the other hand are fully negotiable ; for they are made payable to bearer and mere possession is sufficient to constitute ownership, so far as government

1. At present 1½%.

is concerned. A bearer bond certifies that the holder is entitled to a specified amount in respect of the loan to which the bond relates. Transfer of these bonds is made without any formalities by the mere physical handing over of the bond by the transferor to the transferee. When the loan matures, the bond in respect of it also matures ; and repayment is made to the one who presents the bond without any inquiry as to his title and status, and without any endorsement being required. Interest is obtained by presenting the coupons attached to the bond on the date stated at the office or treasury at which the bond is registered for payment. This form of security is very risky to hold as, if it is lost or stolen, the owner is deprived of his right and title to it. Hence the issue of bearer bonds has always been discouraged by the government and of late discontinued.

A promissory note is a half-way house between the stock certificate and the bearer bond, for it can be negotiated but cnly under the endorsement of the holder. A promissory note contains a promise by the government concerned to pay a certain person a specified amount on a fixed date or after due notice[1] and to pay interest thereon half-yearly at specified rates. A promissory note contains cages on the reverse for endorsements, if transfer is to be effected. Interest is payable at the Bank or treasury, according as it is mentioned in the note, on presentation of the note itself.

Brief mention must also be made of three other forms of debt, viz., Government Bonds, Debentures and Debenture Stock and Annuities which were more largely used in times past for financing capital expenditure on railways and during and after the war of 1914-18 for the purpose of short and medium dated borrowing.

Government Bonds were issued during the last war and formed the major portion of the short term debt for a number of years after the war. These were then considered as part of the floating debt and were for three, five or ten years. Almost all the bonds have been paid off.

1. According to the terms of the loan to which the promissory note relates.

Debentures and Debenture Stock are closely allied to Government Bonds and were chiefly issued in England in connection with Indian railways either by the Secretary of State or by railway companies on the guarantee of the Secretary of State. Debentures are for a fixed period. Though debenture holders have a lien on an undertaking, no such obligation was incurred by the Secretary of State ; there was only a personal contract with him. Debenture stock is redeemable either at a distant date or not at all, at the option of the person making the issue. At present there are no debentures outstanding but only debenture stock on account of certain railways, e.g. the E.I.R., the E.B.R., the S.I.R. and the G.I.P.R. with interest rates varying from 3% to 4½%.[1]

Annuities were also resorted to on behalf of the railways. They were issued for a specified period with fixed annual repayments of principal and interest. These annuities were paid to the shareholders of the railway companies,[2] as the share capital at the time of purchase was too large to be conveniently made in one lump sum. By means of these annuities the payment was spread over a long term of years.[3]

Repayment, Conversion and Redemption of Debt

The nature of public debt has undergone a change since the Great War of 1914-18. Before the war borrowing seldom exceeded Rs. 3 crores in any year and all the loans raised were non-terminable, with the result that there was no obligation to repay the principal borrowed. Hence the question of repayment was not an urgent problem. After the war government's loan policy underwent a radical change for in the first place, rupee loans instead of sterling loans were floated as far as possible, and in the second place post-war loans were generally of a terminable character.

1. All these were taken over by the Secretary of State at the time of purchase of the companies as part of their outstanding liabilities on the terms on which they were originally issued.
2. The E.I.R., the E.B.R., the G.I.P.R., the Madras Railway, the Sind, Punjab and Delhi Railway (N.W.R.).
3. The E.I.R. Annuity runs from 1880-1953.

When a loan has to be repaid on or by a fixed date arrangements have to be made so as to put government in possession of adequate funds to pay off the loan. Yet there was no systematic scheme for the amortisation of debt before 1925-26 ; in practice revenue surpluses were utilised for capital expenditure on railways and irrigation. Sinking funds are required to be established by Acts of Parliament for the payment of annuity instalments in connection with the purchase of certain railways ; but there are no other sinking funds established by statute for making regular provision for such repayments. The principle of sinking funds is that the sum set aside every year together with the accumulated interest is sufficient to repay the principal at the end of the specified time. Or in the alternative the principal and interest for a specified period are gradually paid up through annual instalments.

When the market rates are favourable conversion is resorted to. The loan that has to be repaid carries in such an event a comparatively higher rate of interest ; and the interest for the conversion loan is fixed slightly above the market rate, so that the loan holders may be induced to convert their holdings into the new loan. For example, the recent $3\frac{1}{2}\%$, 3% and $2\frac{3}{4}\%$ loans have been in part subscribed through conversion.

From 1925-26, chiefly on the initiative of Sir Basil Blackett, the then Finance Member, a general scheme for the reduction and avoidance of debt was adopted. Every year from the general revenues of the centre a sum of Rs. 4 crores plus 1|80th of any excess in the total debt on 31st March of the preceding year over that on 31st March, 1923, (the sterling debt was converted into rupees at Rs. 15 to the £ for the purpose) was set aside for debt redemption. The purpose of this redemption scheme was to extinguish the productive debt in 80 years and the unproductive in a much shorter period. It was in operation upto 1928-29 and after that continued to 1932-33 with this modification that the sterling debt was converted into rupees at Rs. 13 1|3 to the £. Then came the depression and everywhere amortisation payments and sinking funds were reduced in order to

produce balanced budgets. In India owing to the depression railways ceased to make any contributions to the general revenues, and so the annual provision for debt redemption was reduced to Rs. 3 crores from 1933-34.[1]

Provincial Debt

We have seen in a previous chapter the arrangements made on the introduction of provincial autonomy with regard to the cancellation and consolidation of debt owed by the provinces to the centre. The debt of certain provinces incurred in the pre-autonomy period has been cancelled in part or in full ; and the balance has been consolidated for each province into a single debt carrying a single rate of interest. The repayment of this consolidated debt is provided for by a series of annual equated payments of principal and interest spread over 45 years. These repayments are a charge on the provincial revenues and are non-votable.

The new constitution grants to the provinces the power to borrow on the strength of their revenues. But the provision for amortisation is governed by the terms of the notification of each loan. Generally a depreciation fund of 1½% per annum is provided for to prevent large fluctuations in market rates over the issue price.

Apart from this arrangement in connection with the recent open market loans, there are no general principles uniformly observed for the redemption of debt. Amortisation for unproductive debt may be based on the period of maturity of the loan and to the chances of growth of this type of debt. However, sounder finance requires that amortisation arrangements should refer to the object of borrowing than the period of maturity. The period should be comparatively short where expenditure on unproductive purposes ought to be more properly met from revenue, or where assets constructed from the loan are short-lived, or where the debt is likely to increase very rapidly. Where a

1. The sum for debt redemption is taken to the head 'Appropriation for the Reduction and Avoidance of Debt' under the Deposits Section of the accounts.

national asset is produced the amortisation period should never exceed the life of the asset.

Amortisation for productive loans depends on the particular circumstances of each case, and if the earning power of an asset substantially exceeds the interest on the debt, amortisation is not very necessary, though it is sound and prudent to make amortisation arrangements even for the most productive debt and relate them to the life of the revenue producing asset.[1]

Repatriation of Debt

Reduction of sterling obligations, which has always been before the government, has been going on from 1934-35 and in particular from 1937-38. Repatriation consists in paying off foreign obligations. If needed an equivalent amount in the national currency is issued in exchange. Hence while sterling debt has been considerably reduced, the rupee debt has increased. The Reserve Bank paid up and cancelled the sterling securities, and the holders were given cash or allowed to convert the proceeds into a rupee loan bearing a similar rate of interest and period of maturity at prices fixed from time to time by the Reserve Bank. Railway Debentures to the tune of £ 4½ millions have been paid off as well as £ 9½ millions for the Family Pension Fund. Since the outbreak of war in 1939 large sums have been repatriated and at present the repatriation of the whole of our sterling debt is in sight.[2] The advantage of internal debt as against external debt has already been pointed out. The criticism against government has been that they failed to embark on such operations earlier.

Floating a Loan

Many things have to be considered before a loan is floated, if the best results are to be obtained ; for a loan which

1. When borrowing is for the purpose of making loans to cultivators, etc., then the actual recoveries of principal are a sort of amortisation if used for that purpose and if all losses, etc. are written off to revenue.
2. Of £276 millions outstanding on 31st March, 1937, a sum of £188.3 millions was repatriated upto 31st March, 1942, and it is expected that the balance will be retired during this year (1943).

is not subscribed to in full casts a slur on government's prestige. First of all the amount of the loan must be settled upon. This will obviously depend on the purpose for which the loan is required, whether for conversion or a large capital project or for general purposes, but the amount of a loan must not be too small. Sometimes, e.g. during war, the loan is open to subscription indefinitely. Then the next consideration will centre round the rate of interest, the date of maturity and the best time to float the loan. Loans are usually floated in the "off" season when market conditions are easy, that is to say generally between June and September. Perhaps the most difficult thing about a loan is to fix the rate of interest, for unless the yield is attractive enough there is little chance for the loan to succeed. The rate is fixed with reference to market conditions and the currency of the loan. A non-terminable loan will carry a higher rate than a short dated one. The less the period of maturity the lower the rate of interest, so that on treasury bills the rate is, compared with the rate on other forms of debt, very low indeed. The rate also depends on the issue price and repayment value, for sometimes the loan is floated at a discount so as to keep the interest rate on the same level as before ; sometimes at a premium with a higher rate of interest ; and very occasionally it is issued at a discount and repayable at a premium. The idea behind all these devices is to make the loan appear very attractive even though at bottom the yield is the same.

There are three stages in the procedure for floating a loan : (*a*) the notification, (*b*) issue of instructions to treasuries and sub-treasuries, and (*c*) the progress of loan applications and distribution of the loan scrip. The notification is prepared by the Reserve Bank who advise government on all loans and float the loans for them. The amount and the rate of interest have to be kept in great secrecy, or they may have a disturbing effect on the market arising from the action of speculators.[1] The notification is circulated to the Accountants General who will then advertise the loan

1. Secrecy is all the more important when the market in government securities is bearish.

locally. Instructions to the treasuries are very important, as investors outside the big cities must apply to them for the loan. Applications may come in very fast and then the loan will be closed very soon. There have been instances where the loan was closed five minutes after being opened.

The Reserve Bank also floats treasury bills for the government. The tender system is adopted and government is, therefore, in a position to secure the most favourable rates. Tenders are invited every week on a particular day. Then during the rest of the week, sometimes, treasury bills are 'on tap,' i.e. obtainable when wanted at three pies more than the accepted rate on the previous official day. These are called intermediate treasury bills.

Administration of Public Debt

The general control over public debt rests with the Finance Department, though the management is entrusted to the Reserve Bank of India. Before the establishment of the Reserve Bank the Central Public Debt Office, situated at Calcutta, was managed by the Controller of the Currency, and there were Public Debt Offices at Bombay and Madras. From October 1937 the Reserve Bank took over the administration of public debt from the Controller and exercised his powers and functions through the Manager of the Calcutta office. A fresh Public Debt Office was opened at Delhi.

At the beginning of 1941 the Central Public Debt Office was transferred to Bombay, and the administration of loans, with a few exceptions,[1] was decentralised. So now there are four Public Debt Offices, at Bombay, Calcutta, Madras and Delhi;[2] and the Central Public Debt Section in Bombay is the administrative agency exercising the powers under the Securities Act. It manages the public debt and maintains the accounts relating thereto.

1. e.g. 5% 1939-44 Loan, 3% 1941 Bonds, 3% 1940-43 Loan, 4% 1943 Bonds.
2. Bombay serves Bombay, the C.P. and Sind; Calcutta serves Bengal, Bihar, Assam and Orissa; Delhi serves the Punjab, the U.P. and the N.W.F.P.; and Madras only its own province.

The duties of the Reserve Bank relate not only to the issue of new loans and treasury bills but to payments of interest and principal, and to all other tasks in connection with the consolidation, division, conversion, cancellation and renewal of securities, and with the maintenance of accounts and registers for the same. The Reserve Bank is also the sole agent for government investments either from their own funds or funds managed by them.

The Public Debt Office is in charge of the Manager of the local office of the Bank, but routine work is attended to by an Accountant. The office is divided into a number of sections, each in charge of a Superintendent. Among the sections are those dealing with forms and the renewal of certificates, the receiving of scrip, the examination of interest notes and notes presented for renewal, book debt, that is stock certificates, the accounts of the local office, the maintenance of central accounts relating to public debt, the issue of new loans and the verification of interest vouchers audited by the Accountant General so as to ensure that treasury payments are in order. Formerly most of the public debt work was done in the presidency towns, now a substantial and important part of the work is done by the treasuries, as the amount of securities held outside the large cities is considerable.

Trends in Borrowing

First of all borrowing is on the increase. The total debt in 1921 was half that what it is today. Borrowing in itself is not a bad thing ; and in India so many services have to be started to improve the lot of the people that borrowing is a stark necessity for development. What is required then is to see that loans are not recklessly gone in for, and that every effort is made to provide as much as possible from revenue, and that the schemes undertaken are of real value to the people. Further there must be arrangements made to provide for repayments of loans as they fall due. Secondly, almost all the borrowing now is in rupees with the result that exchange is eased, 'sterling charges'

diminished, and the interest of the people in the stability of government increased. Thirdly, even the existing sterling debt is being cancelled and repatriated, so that the burden of interest payments abroad is further decreased. There is even the prospect now of India emerging as a creditor country after the present war is over. Fourthly, the rates of borrowing have considerably lessened. Short term rates have with the establishment of the Reserve Bank definitely fallen, as seasonal stringency is now a thing of the past. The rates for long term borrowing are also on a low level now. Fifthly, most of the debt of India being productive debt, the burden on the taxpayer is very small, if not nil. When railways pay their regular contributions to the general revenues there is even a small profit made on the debt. Most of the unproductive debt (about three-fourths of it or Rs. 250 crores) was due to the war contributions made by India to the United Kingdom during the last war. With the present war on, the unproductive portion of our debt will still further increase. The end of the war will probably find us with an unproductive debt that is tremendously swollen.

CHAPTER XIV

SOME GOVERNMENT DEPARTMENTS

In this chapter we deal with departments which call for special treatment, namely, the Railways, the Defence Services, the Posts and Telegraphs and the Crown Representative's Departments. The Railways present unique problems both as regards organisation and the budget. The railway budget is in the first place separate from the general budget ; secondly, it is in normal times usually larger than the general budget ; thirdly, the railways possess an accounting system independent of audit ; lastly, they have in store many changes sanctioned by the Act of 1935. The Defence Services account for nearly one half, at present owing to the war even more, of the expenditure in the general budget ; they have their own accounts organisation and are served by a special branch of the Finance Department ; they possess an organisation spread all over the country. Posts and Telegraphs are a commercial service with a large income and expenditure, with a special audit and accounts organisation. The Crown Representative's Department is a newly established one. Though not important it is still included to complete the picture of special government departments.

A. Railways

The first fact to be noted about the railways as a department of the government is that they form the largest state concern in India. The next is the diversity of the relations between the state and the railways on the subjects of ownership, management and control. Most of the railways belong to the state though not all are managed by it. There are six railways that are owned and worked by the state ;[1] there are three which are state owned but company managed.[2]

1. The G.I.P., N.W., E.B., E.I., B.B. & C.I. and B.N. Railways.
2. The M.S.M., A.B. and S.I. Railways.

There are two important lines[1] and others of less importance which are owned and worked by companies. But whether it owns and manages or not, the Government of India exercises certain general powers[2] over the railways under the Railways Act of 1890 ; and in addition, under the provisions of contracts, detailed control over the management of all railways in British India greatly exceeding the powers granted by that Act. Government has also certain financial interests in all companies in British India and a preponderating interest in most of the railways of first importance.

The diversity of conditions that now prevails in the different railways is due to their peculiar history. Lord Dalhousie introduced the guaranteed system in 1854 and it was continued till 1860. Then followed many attempts to secure construction of railways on more favourable terms without the giving of a guarantee of interest. After 1880 the necessity for rapid extension of railways led to the introduction of a modified guarantee system. The present arrangements provide for the termination of contracts by the Secretary of State on specified dates and on termination the company's capital is repayable at par. The amount of capital sunk in railways by the government totals up to the colossal figure of 800 crores of rupees.

Under the Act of 1935 railways have been classified as (*i*) minor railways, i.e. those railways wholly within a province or Federated State which do not form a continuous line of communications with a federal railway whether of the same gauge or not, (*ii*) Indian State Railways, i.e. those railways which are owned by a State and either operated by the State or on behalf of the State otherwise than in accordance with a contract made with the State by or on behalf of the Secretary of State in Council, the Federal Government, the Federal Railway Authority or any company operating a federal railway, and (*iii*) Federal Railways, i.e. all other railways than those included in (*i*) or (*ii*).

1. The B.N.W. and Rohilkhand and Kuomaon Railways.
2. e.g. inspection before a line is opened for traffic, rules for safety of passengers even to the extent of requiring use of particular rolling stock to be discontinued, conditions for use of railway or rolling stock.

The Railway Board

The organisation through which the Government of India exercises its control over railways is the Railway Board assisted by the Railway Department. The Board as at present constituted consists of a Chief Commissioner of Railways as the President, a Financial Commissioner and two members.[1] The Financial Commissioner is the representative of the Finance Department on the Board. The Board is assisted by a technical staff of directors and deputy directors who attend to the different branches of work and are responsible for the discharge of all but work of the highest importance. Hence the Board is free to devote itself to studying the wider problems of railway policy.

To give the public an adequate voice in the management of railways a Central Advisory Council consisting of three official and thirteen non-official members was constituted. Now it consists of all the members of the Railway Standing Finance Committee *ex officio*, one nominated official member, six non-official members chosen from a panel of eight elected by the Council of State from among themselves and six more from a similar panel by the Legislative Assembly. This Council is a purely advisory body, which may discuss such important questions as may be placed before it by the Member for Commerce,[2] and make recommendations thereon.

The Railway Budget

In 1924 the Legislative Assembly by a resolution adopted the ' Separation ' Convention[3] by which the railways were separated from the general finances of the country both " in order to relieve the general budget of the Government of India from the violent fluctuations caused by the incorporation therein of the railway estimates and to enable the railways to carry out a continuous policy based on the

1. One for staff and the other for traffic.
2. Now by the Member for War Transport.
3. Vide Appendix IX.

necessity of making a definite contribution to general revenues on the money expended by the State on railways." Railways were therefore required to make an annual contribution which was a first charge on their net receipts. This contribution was fixed on the capital at charge of commercial lines at the end of the penultimate year plus 1|5th of any surplus profits remaining after payment of the fixed return, subject to the condition that deficiencies of contribution in any year were to be made good in subsequent years and that therefore surplus profits could not accrue if there were any deficiencies outstanding. The loss on strategic lines was borne by the state, and hence it was deducted from the contribution to be made every year. The surplus after deducting the contribution was transferred to a Railway Reserve ; but if the surplus was over Rs. 3 crores, then two-thirds of the excess over Rs. 3 crores was taken to the reserve and the balance to the general revenues. The Reserve Fund could be used for making the annual contribution, if necessary, and to provide, also if necessary, for depreciation, for writing down or writing off capital and for strengthening the financial position of the railways in order to reduce rates or improve services.

From 1931-32 the railway earnings fell so low that no contributions could be made to the general revenues from that year. Up to 1935-36 the suspended contributions amounted to Rs. 31 crores and loans from the Depreciation Fund to pay interest charges to Rs. 31½ crores. From 1936-37, however, the railways again began to earn a surplus. By 1942-43 all arrears were wiped out and substantial sums over and above the required contributions were in future expected to be available to the general revenues. On 2nd March this year the Assembly by a resolution made certain changes in the convention of 1924.

According to the new ararngement the railways will pay for 1942-43 a sum of Rs. 2.95 crores to the general revenues over and above the current and arrear contributions due under the existing convention. From 1943-44 the surplus on railways from commercial lines will be allocated between the Railway Reserve and the general revenues on

a consideration of the relative needs of each. For 1943-44 25% of the surplus will go to the former and 75% to the latter.

As in the general budget, there is the division of expenditure into voted and non-voted. The form of the railway budget, its contents, the number of demands for grants, etc. are settled by the Railway Board in consultation with the Standing Finance Committee for Railways. The budget estimates are divided into two parts, the standing budget and new items, and are prepared by the different railway administrations and other authorities empowered to incur expenditure for submission to the Railway Board. Each railway administration is divided into divisions, and hence the scrutinising authorities will be the divisional officers, the general managers and the Railway Board. The ways and means estimates for capital expenditure are submitted to the Finance Department for necessary provision in the ways and means budget of the government. The capital programme and new items are then placed before the Standing Finance Committee for Railways[1] for their approval. The complete budget, i.e. the demands for grants, the detailed estimates and the explanatory memoranda, is also placed before that committee a few days before being passed on to the two houses of the legislature. The legislative procedure is the same as for the general budget. The Commerce Member introduces the budget in the Assembly, the Chief Commissioner of the Railway Board in the Council of State. Grants are distributed by the Railway Board to the different railway administrations and the subordinate authorities ; the sums distributed are called allotments. The railway budget is on a cash basis like the general budget ; and so unspent balances lapse at the end of the financial year. The General Manager is empowered to distribute funds to his subordinates in such manner as he may consider most suitable, so that the sums allocated do not exceed the grant placed at his disposal. He usually keeps a sum unallotted as a reserve for emergencies that might arise in

1. The Standing Finance Committee consists of one nominated official member of the Assembly who is the Chairman, and eleven members elected by the Legislative Assembly from their body.

the future. As with other departments of the government, the Railway Board and the railway administrations have their powers of re-appropriation. They also keep watch over balances and the progress of receipts and expenditure.

FINANCIAL ORGANISATION AND CONTROL

The head of the Accounts Department is designated as Financial Adviser and Chief Accounts Officer on state-managed railways and as Auditor of Accounts or Chief Auditor or Chief Accountant or Chief Accountant and Auditor on company-managed railways. Subordinate to them are the accounts officers attached to divisions, workshops, stores depots and construction projects.

The accounts organisation since 1929 has been separated from audit. The Accounts Department of a railway is therefore responsible for (*a*) the internal check or audit of transactions whether of receipts or expenditure, (*b*) prompt settlement of proper claims against the railway, (*c*) keeping of accounts, (*d*) helping the executive and administrative officers with advice when required on all matters involving railway finance, and (*e*) seeing that there are no irregularities in the transactions of the railways.

Internal check is necessary before paying out moneys and this check, therefore, corresponds to the check of an audit office, e.g. check with reference to sanctions and orders by the executive authorities, the instructions of the Financial Commissioner and the Controller of Railway Accounts, and the accepted standards of propriety. The railways pay into or withdraw from the Bank or treasury in lump sum. The accounts officers also assist in framing estimates, though the responsibility for them devolves upon the spending authorities concerned.

The accounts officer acts on behalf of the railway administration, and so his position as against the executive authorities is that of a friendly critic. If he is unable to accept orders as proper, he brings them to the notice of the executive officer ; and in the event of disagreement he may ask for the decision of the higher executive officer.

The principal accounting officer for all state-owned railways in India is the Controller of Railway Accounts who functions directly under the Financial Commissioner. He is responsible for the compilation of the whole of the accounts relating to receipts and expenditure ; he, therefore, issues instructions to the Chief Accounting Officers relating to the preparation and submission of returns and accounts required by him.

The methods of financial control are similar to those for other services of the government—revised estimates, watching the progress of expenditure, monthly reviews by accounts officers, and so on. The railways are a commercial undertaking of the government and hence maintenance of accounts on a commercial basis is essential, showing in particular a proper allocation of expenditure between capital and revenue. The general principles governing such an allocation are given in appendix X.

The advantage of having the accounts organisation attached to the administrative department is seen very clearly here, for the accounts officer not only keeps the accounts but assists very substantially in financial control.

Audit is carried out by the Auditor General of India through a Director of Railway Audit who conducts only a test-audit of the total transactions for the year. The Auditor General prescribes the form of accounts required for the Combined Finance and Revenue Accounts. Subordinate to the Director are the Chief Auditors of state-managed railways, the Chief Auditor of the Railway Clearing Accounts Office, and the Government Examiners of Accounts of the company-managed railways. These last have in addition the responsibility to safeguard the interests of the government where such interests are divergent from those of the companies, and to this extent, therefore, are representatives of the Railway Department.

The Federal Railway Authority

The Act contemplates such an Authority in whom will vest the responsibility for the administration of railways in

India. The Authority will consist of seven persons, one of whom will be appointed by the Governor General in his discretion to be President. The Authority will be assisted by the Railway Board. There will be also a Railway Rates Committee and a Railway Tribunal. When the Authority is established the railway budget will no longer be subject to the control of the legislature. Only those items will be shown in the general budget for which moneys are received or spent by the government on capital or revenue account. The federal executive will retain general powers of supervision over the Authority.

B. Defence Services

The Defence Services at present are, and even when federation is established will continue to be, outside legislative control, even though estimates pertaining to them may be discussed.

Financial control in the Defence Services is exercised through three agencies, the Financial Adviser, Military Finance, the Military Accounts Department and the Director of Audit, Defence Services. The Financial Adviser is the head of the Military Finance Branch which is a part of the organisation of the Finance Department. The Financial Adviser is a Joint Secretary to Government in the Finance Department and as such directly responsible to the Financial Secretary and the Finance Member. He performs in relation to the Defence Services that which the Financial Secretary does in relation to civil departments. His functions are twofold : to assist the military authorities with advice for the expeditious disposal of their business and to maintain adequate watch over military expenditure,—to assist as well as to criticise. The object of the Military Finance Branch is to be in close and continuous personal touch with the military administration and yet be sufficiently independent of that administration. The Military Finance Branch is located entirely at headquarters, as the administration of the defence forces is highly centralised. The Financial Adviser is assisted by a number of Deputy Financial Advisers and Assistant Financial Advisers.

The Military Accounts Department of which the Military Accountant General is the head is entirely under the control of the Military Finance Branch. Though the Financial Adviser is the Accounting Officer for the Defence Services, the Military Accountant General functions on his behalf as regards the keeping of and internal check on military accounts. The Military Accounts Department is also responsible for receiving and disbursing moneys on behalf of the Defence Services.

The military accounts organisation is divided into districts ; a number of districts form a command. There are three commands, and the independent district at Quetta. At the headquarters of each command there is a Controller of Military Accounts, who functions as a chief accounts officer and is subordinate to the Military Accountant General. In addition he acts as a Financial Adviser to the General Officer Commanding-in-Chief of the command. The controllers prepare the estimates, keep the accounts, make payments, furnish the commanding officers with statistics for the purpose of controlling expenditure against allotments, and consolidate the accounts. The duties of a controller are those of a civil Treasury Officer and an Accounts Officer of a province.

The Military Accountant General consolidates the accounts and prepares the appropriation accounts, and assists the Auditor General in the preparation of the Finance and Revenue Accounts so far as the Defence Services are concerned. To ensure a high standard of efficiency in the Defence Accounts Offices the Military Accountant General or his deputy acting on his behalf periodically inspects these offices.

Audit of the Defence Services is conducted by a Director of Audit, Defence Services, on behalf of the Auditor General. There are four Assistant Directors of Audit, one at each command and one for Lahore and the Western Districts. There is an Assistant Audit Officer at Quetta. As in the case of the railways the Director is only entrusted with audit duties and conducts a test-audit for the purpose.

The budget is prepared in two parts—the standing budget and new demands. The accounting organisation assists the administrative agencies in the preparation of the estimates. The estimates are prepared by the different units and formations,—at each unit there is an accountant, subordinate to the controller. They are then scrutinised and consolidated by the controller of a command. The Financial Adviser scrutinises them again and consolidates them for the whole of India. He consults the Financial Secretary to the Government of India on questions where a new financial policy is embarked upon. The system of control is similar to that in other departments.

C. Posts and Telegraphs

We shall consider only three points here : the general organisation of the department, the commercialisation of accounts, and the accounts and audit organisation, as other features are the same as in other departments. The Posts and Telegraphs Department is in charge of a Director General and is divided into a number of circles in charge of Postmasters General. Each circle has its postal and telegraph sides.

From 1936 budget control in this department has been decentralised, and so each circle prepares its own estimates, divided into standing charges and new items. It also watches the progress of revenue and expenditure against the estimates and grants, and takes steps to regularise all excesses of expenditure.

There is also a Financial Adviser, Posts and Telegraphs, who is the representative of the Finance Department in the Posts and Telegraphs Department. Like the Financial Adviser, Military Finance, he assists the administrative authorities in financial matters such as the preparation of the budget, watching the figures of revenue and expenditure, etc. He also scrutinises the departmental proposals on behalf of the Finance Department.

The peculiarity of this department is that it has the accounts and audit service attached to the department. Both

accounts and audit are under the Auditor General. The actual work is carried out by the Accountant General, Posts and Telegraphs, at the central office, assisted by four deputies. He compiles the accounts and audits them. The initial accounts are not kept at the treasuries but recorded departmentally. Receipts are deposited and withdrawals made in lump sum at a treasury or the Bank.

The Posts and Telegraphs Department was reorganised from 1st April, 1925, on a commercial basis and the changes made were (*a*) the institution of a capital account to show the value of the assets, (*b*) the institution of a Depreciation Fund on a sinking fund basis built up from contributions charged to the revenues of the department, (*c*) the institution of suspense accounts linked up with the main government account in which are recorded the transactions relating to the purchase and consumption of stores, and the transactions relating to manufactures, etc., undertaken in departmental workshops, and (*d*) the opening of a head, in the government ledger, to show the true or commercial profit or loss on the working of the department. It is in consequence of this that the department bears all charges for services rendered by other departments to it and receives credits for services rendered by it to the other departments.

Being a government department the net profit or loss merges into the general balances of government. However, the department receives a rebate on interest charges in respect of any surplus that it may earn after meeting all charges.

The Post Office undertakes two banking functions for the government—in connection with savings bank deposits and cash certificates. These functions are tacked on to the postal department to take advantage of its wide organisation which spreads to every town and village in India.

D. The Crown Representative's Department

This department is divided into two parts—the Political and the Crown Finance Departments. The latter prepares the budget and exercises general financial control.

Many financial powers are, however, delegated to the Political Department.

The Crown Representative's budget is a net one, i.e. it shows the net amounts that must be paid over by the Central Government to the Crown Representative for the discharge of his duties. The Accountant General, Central Revenues, prepares the appropriation accounts and audits them. Audit of the Crown Representative's accounts is a statutory obligation on the Auditor General, even though they are entirely separate from the accounts of the Central Government. The audit report is submitted to the Secretary of State. It has been arranged that the 'demands' of the Crown Representative will be shown in the demands for grants of the Central Government as an appendix thereto. Audit will apply the same rules and principles to the Crown Representative's accounts as to the accounts of the federation. The Crown Finance Officer watches the progress of actuals and thus provides a safeguard against the Crown Representative drawing more than he has demanded under S. 145.

The financial powers of the Crown Representative are conveyed to him through Letters Patent. Though he is required by them to have prior consultation with the Secretary of State on certain matters, audit, however, recognises no limitation to his authority. The Crown Finance and Political Departments derive their powers by delegation from him.

CONCLUSION

IT was stated at the commencement of this book that the analysis of the Indian system of financial administration could be regarded as an illustration of budgetary principles and as an application of budgetary procedure. Having completed the analysis we must ask ourselves the question whether our system does really conform to the principles and procedure considered in the first two chapters. In the main the answer is that it does.

The Indian system, it has been remarked more than once, is modelled on that of the United Kingdom ; and, therefore, shares all the merits (as well as the defects, for no human system can be perfect) of that system. It may happen of course that a particular practice, while securing an advantage on the one hand, may itself be the cause of a defect on the other ; consequently the test of a system is in the balance of its advantages over its disadvantages. For example, it is agreed among most writers that executive recommendation for taxation and for expenditure is a salutary practice as a safeguard against the extravagance and irresponsibility of individual members of the legislature. In the French and American systems the worst abuses of 'pork barrel' and 'log-rolling' are rampant, because a member of the legislature has the privilege not only to move for the reduction or rejection of the estimates, but for an increase of the provisions for items and even the insertion of new ones. On the other hand, as Henry Higgs has pointed out as a defect in the English system, the executive may go to the other extreme, and treat any suggestion for modification of the budget estimates as an attack on the prestige of the government and make it a test of confidence in the ministry ; and thereby squash the resolutions of private members. No party member wants a dissolution of the house with all the attendant expenses for a fresh election merely for the sake of a few changes here and there. Yet on balance the rule that every appropriation and taxation

measure must come from the executive has proved very beneficial ; that is why most countries have now adopted it.

The Indian system conduces to both efficiency and economy. If our system is the costliest, it is due not to faults in the system but to extraneous factors. The executive even today is very powerful and, therefore, in spite of repeated protests from the public and the legislature, the salaries of the members of the Services continue to be extremely high when compared with those of persons in the more humble walks of life. Nowhere in the world is there such a disparity, not even in England which has always had, in spite of its democratic form of government, an aristocracy in one form or other dominating its public life. As a provocation, as it were, to Indian opinion the Act of 1935 retains the control of the Secretary of State over the Services, so that the Indian legislatures are powerless to effect economy in this direction.

The fact that we have limited self-government goes a long way to account for and explain many features of our system. The division of expenditure into charged and voted, the creation of reserved departments outside legislative control, the control of the Governor General over financial affairs specially in view of his responsibility for the credit and financial stability of the federation, the submission of audit reports to the Governor General rather than direct to the legislature, the power of the Governors and the Governor General to include sums which they consider necessary for the discharge of their special responsibilities —all these are the direct result of constitutional limitations peculiar to the stage of political self-government at which we are now. The removal of these limitations is not the task of the administrator but the statesman and the politician.

Another result of these limitations is that the merits underlying our system are ignored, consciously or unconsciously, because the system has been associated with and used for the purpose of furthering imperialist ends. Many features, which otherwise would have been appreciated, are

condemned because of this unfortunate circumstance. Centralisation, for instance, has acquired a bad odour in India as being associated with control from Whitehall. But in administration, as we saw in a previous chapter, centralisation is a virtue which is not easily acquired. The U.S.A. and France are two outstanding examples where the disadvantages of a lack of centralised control for unification and co-ordination have been apparent. In America especially, though in 1921 the Budget and Accounting Act was passed to inaugurate a full budget system, yet even today many features still remain to be introduced. To effect reforms is not easy ; for powerful vested interests have their stakes in the existing system. We in India are fortunate in having a fully centralised system. All that is necessary is to make use of it entirely for the benefit of the people.

It is very important, nay essential, not to allow political disabilities and feelings to bias our judgment of the system of financial administration. Not that there are no defects to be overcome and no improvements to be effected. But, taken all in all, our system is one that has many advantages ; and though modifications are necessary, they must be introduced with care and after due consideration.

To maintain the high standard of our system and even to improve it a double-sided effort is required—from the administration, that is, the experts who run the business of government, and from the ministers and members of the legislature who are the leaders and representatives of the people. From both an intelligent appreciation of the different features of the system is required. For unless there is appreciation there will be no zeal to preserve the good points of the existing system or to modify it in the right directions. The civilian, preoccupied with the multifarious tasks of daily administration, is apt to forget the broad principles in his desire to achieve immediate practical results. With changing political conditions his position is rapidly undergoing a drastic transformation ; from being the man in power able to execute what he considered best he is becoming the expert adviser of an

executive chosen and responsible to a popularly elected legislature. His function has changed and will change further from one of domination to one of persuasion ; but the belief is entertained that he will as efficiently discharge his new role as that in the past. On him will rest the great responsiblity to assist in preserving continuity of policy and financial traditions. The ministers and the legislature on their part in their overwhelming desire to carry out party programmes may forget the wider interests of sound financial administration, and even consider financial checks as mere cogs in the wheel of progress, specially when there is so much nation-building work to be done. As things are, no keenness has been evinced in the provinces to advance financial administration. There has been a distrust of the administrative personnel for the very reason that was pointed out earlier, that they have been considered a part of the imperialist regime, specially as control over the Services is in the hands of the Secretary of State. But a disregard of administrative prudence may end in disaster. Power must be used with discretion. The leaders of the nation must, therefore, rise to the occasion and rise above mere party politics. On them rests the responsibility to establish traditions in the legislature, to set a tone to public administration and to educate public opinion in proper principles and practices. From every member of the legislature must be expected an understanding of at least the outline of financial administration. What the House of Commons secured by slow growth the Indian legislatures must acquire without delay, consciously and with full understanding. Public opinion is a great force but to be of use it must be well informed and built on strong foundations. Hence the need to acquaint the man in the street with that minimum of information on financial procedure which is necessary for him to cast his vote intelligently.

The plea is therefore put forward here that political parties in the country should take more interest in the system of financial administration. It may be that the existing system will need to be modified to suit a federal form of government. But what is required is a deliberate effort to

maintain a sound system. That is why it has been thought necessary to begin this study of the Indian system with a discussion of the general principles and procedure of financial administration. It is by reference to those principles and practices that the merits and demerits of our system must be evaluated, and by reference to them also changes introduced.

Then again the parliamentary form of government within which suggestions for improvement have been made may have to give way. Signs are not wanting to show that perhaps the parliamentary system is not suited to India with its communal divisions and the minorities question. Hence the reference to first principles will be even more necessary, so that the new system may be effective in promoting both economy and efficiency.

The merits which the Indian system possesses are derived from the model which has been imitated. In the preparation, voting and execution of the budget, the modifications so far introduced have been necessitated by local conditions, e.g. the size of the country and the centralisation of previous decades. Advantage has been taken to dispense with all the unnecessary formalities and 'outworn customs' such as still continue in the House of Commons, e.g. the elaborate procedure in the Committees of Supply and Ways and Means and the further procedure in the house have been done away with. Demands for grants are straightaway discussed, and for formal sanction are included in a Schedule of Expenditure authenticated by the Chief Executive.

But in the course of our examination we have also noticed certain drawbacks, the chief of which is the combined system of audit and accounts. This is a problem that awaits solution, chiefly on financial grounds. Suggestions have been made in the text to mitigate some of the evils. Obviously it is a matter which requires most careful consideration, so that the cost of changes effected may not be unduly heavy. Certain general improvements in our financial system are here suggested.

In the first place the position of the Finance Department in the administration must be strengthened. That department can serve as a very efficient instrument of efficiency and economy. It has been remarked how the English Treasury has acquired such a prestige that it may reject proposals even without assigning a reason, leaving the burden of proving the necessity for a scheme on the administrative departments. With the introduction of provincial autonomy ministers, no doubt inspired with overpowering zeal and the best of intentions, have perhaps found a strong Finance Department irksome and as a check on their ambitions. But this check is useful and necessary. A province can ill afford to commit itself in moments of its ministers' enthusiasm to policies whose later repercussions will tell on its finances. The Finance Department already does possess a certain priority or primacy ; what is needed is a strengthening of the rules by healthy conventions and practices. The Finance Minister's hands must be strengthened ; for this it is essential that capable party men be appointed to this post. After all the Finance Department is not to be regarded as a brake but rather an action regulator to see that the business of the state is conducted with due regard to total expenditure, as well as to securing efficiency and economy in the execution of individual proposals.

On the subject of estimates it was mentioned earlier that the Finance Department, while it took great care to scrutinise new items, allowed standing charges to pass off with a much lighter examination. In this way expenditure on objects once essential but now superfluous may be continued. The device of an Estimates Committee has been considered and found wanting. Even if certain modifications suggested are followed it will still have certain defects, e.g. it will not be able to review all expenditure together but only that relating to some departments or heads of accounts every year. The result is that owing to changes in the composition of the committee and to a lack of true perspective, which is essential for correct evaluation of the different services, the Estimates Committee is inadequate. Further, once a department has been examined by the

committee, it receives a sort of certificate to continue in that state for a long time, say ten years or more. But ten years is too long a stretch to allow things to stagnate. Review and investigation must be more frequent.

The ideal would be to have a small department directly under the legislature working all the time for examining and reporting in detail on different departments after the fashion of business efficiency experts. But such a device will be costly and worse still resented by the executive as an encroachment on its privileges. The investigating body will then either descend to mere generalities, useless for practical purposes, or become critical of the administration and be considered an encroachment. Hence this method does not commend itself for acceptance.

But the executive can have nothing to say to the appointment of a Select Committee of the legislature to go into the question of organisation and expenditure comprehensively, carefully and at not very long intervals—a sort of periodical visitation of the administration by the legislature. During periods of stress Economy and Retrenchment Committees are appointed, but the haste and pressure under which they work is not conducive to careful examination or sound judgment. A Select Committee for a comprehensive inquiry at intervals of say three, four or five years will correct the defects of the proposed Estimates Committee and the one-sidedness of a Retrenchment Committee. The committee must receive the whole-hearted co-operation of the Finance Department and the audit authorities. If the Finance Department is strengthened, the task of the Select Committee will bear more fruit.

On the working of the Public Accounts Committees the Auditor General has passed very favourable comments. It remains then to strengthen these committees. The chairman should not be the Finance Member or Minister but the Leader of the Opposition as in England. It is wrong in principle for one and the same person to be both judge and accused. The Finance Minister has the responsibility to enforce economy. Audit investigates all breaches of regularity and

propriety. The proper sphere of activity for the Finance Minister, like the Auditor General, is to assist the committee in bringing offenders in the departments to book.

As for the personnel of these committees, more interest is needed on the part of members to avail themselves of the opportunity to enforce economy and efficiency. At present it appears that just a few members take a real interest in their task. In England prominent men have sat on the committee and thus contributed to its prestige. (Another instance of healthy conventions!) We need a similar convention in India. If only the fine lead given by the late Mr. S. Satyamurti in the Central Public Accounts Committee is followed, the prestige of such committees will rise appreciably. In the provinces, however, it is regrettable that the provincial ministries did not attempt to introduce conventions which have done so much good elsewhere.

For better control of revenue a change in the Provincial Finance Department has been advocated. At the centre the Finance Department is responsible for revenue collection which is carried out by the Central Board of Revenue. In the provinces there is a separate department for the purpose and it is advisable to replace it by a Board of Revenue within the Finance Department. It has been argued that the Finance Department should on no account be a spending department and that to place the revenue collecting agencies under it would be to make it responsible for a large amount of spending. Admittedly it is a great merit for the Finance Department to be freed from spending. But even more important is the balance between revenue and expenditure. It is the department which gets the money that knows the importance of retrenchment. Further a Revenue Department not being a spending department in the strict sense of the word is usually not subjected to as much scrutiny as the other departments; so that making it a part of the Finance Department would not result in a lessening of control over expenditure. Besides, by granting the Board a large measure of autonomy, the Finance Department proper will be able to exercise due control over expenditure in an impartial spirit.

Throughout the book we have been faced by the fact that the powers of the legislatures are limited by the constitution. But the dawn of independence cannot be long delayed. Hence the imperative need for the ministers and the legislatures to pay more attention to conventions and practices that will stand in good stead hereafter. If there is one point more than any other which emerges from a study of financial administration it is this, that no matter how well designed the system, the spirit in which it is worked, the qualities of the personnel and the traditions that have been formed through conventions and customs are of greater consequence. We have to learn much from other countries ; from what they have done and still more from what they have failed to do.

APPENDIX I

EXTRACT FROM THE GOVERNMENT OF INDIA (AUDIT AND ACCOUNTS) ORDER, 1936

II. The Auditor General of India

(i) Conditions of Service of Auditor General

3. The salary of the Auditor General shall be at the rate of sixty thousand rupees per annum.

4. The Auditor General shall on his appointment give to the Governor General an undertaking that he will not, after he has ceased to hold his office, accept any employment in the service of a local authority or railway company in India, or of an Indian State or Ruler, or, save with the previous consent of the Governor General in his discretion, any other employment in India.

5. The Auditor General may at any time by writing under his hand addressed to the Governor General resign his office.

6-10. (These refer to the retirement, leave, pension and allowances of the Auditor General).

(ii) Duties and Powers of Auditor General

11. (1) Subject to the provisions of this paragraph, the Auditor General shall be responsible for the keeping of the accounts of the Federation and of each Province, other than accounts of the Federation relating to defence or railways and accounts relating to transactions in the United Kingdom.

(2) As respects accounts of the Federation, the Governor General, exercising his individual judgment, and as respects accounts of a Province, the Governor, exercising his individual judgment, may, after consultation with the Auditor General, make provision by rules for relieving the Auditor General from responsibility for the keeping of the accounts of any particular service or department.

(3) The Governor General, exercising his individual judgment, may, after consultation with the Auditor General, make provision by rules relieving the Auditor General from responsibility for keeping accounts of any particular class or character.

(4) The Auditor General shall, from the accounts kept by him and by the other persons responsible for keeping public accounts, prepare in each year accounts (including, in the case of accounts kept by him, appropriation accounts) showing the annual receipts and disbursements for the purposes of the Federation and each Province, distinguished under the respective heads thereof, and shall submit those accounts to the Federal Government or, as the case may be, to the Government of the Province on such dates as he may, with the concurrence of the Government concerned, determine.

(5) Notwithstanding anything in this paragraph, the Auditor General shall comply with any general or special orders of the Governor General or, as the case may be, a Governor as to the head of account under which any specified transaction or transactions of any specified class is, or are, to be included.

In issuing any such order as aforesaid the Governor General or Governor shall exercise his individual judgment after consulting the Auditor General.

12. It shall be the duty of the Auditor General to prepare annually, in such form as he with the concurrence of the Governor General may determine, and to submit to the Governor General a General Financial Statement incorporating a summary of the accounts of the Federation and of all the Provinces for the last preceding year and particulars of their balances and outstanding liabilities, and containing such other information as to their financial position as the Governor General may direct to be included in the Statement.

13. (1) It shall be the duty of the Auditor General

(i) to audit all expenditure from the revenues of the Federation and of the Provinces and to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;

(ii) to audit all transactions of the Federation and of the Provinces relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business;

(iii) to audit all trading, manufacturing and profit and loss accounts and balance sheets kept by order of the Governor General or of the Governor of a Province in any department of the Federation or of the Province;

and in each case to report on the expenditure, transactions or accounts so audited by him.

(2) The Auditor General may, with the approval of, and shall if so required by, the Governor General or the Governor of any Province audit and report on

(i) the receipts of any department of the Federation or, as the case may be, of the Province;

(ii) the accounts of stores and stock kept in any office or department of the Federation or, as the case may be, of the Province.

The Governor General or the Governor of a Province may after consultation with the Auditor General make regulations with respect to the conduct of audit under this sub-paragraph.

(3) This paragraph shall not apply to accounts of transactions in the United Kingdom, and the powers and duties of the Auditor General with respect to the accounts relating to such transactions shall be as specified in Section one hundred and seventy of the Act.

14. If the Governor General appoints an independent officer to audit sanctions to expenditure accorded by the Auditor General, the Auditor General shall produce for inspection by that officer all books and other documents relating thereto and give him such information as he may require for the purposes of his audit.

15. It shall be the duty of the Auditor General, so far as the accounts for the keeping of which he is responsible enable him so to do, to give to the Federal Government and to the Government of every Province such information as they may from time to time require, and such assistance in the preparation of their annual financial statements as they may reasonably ask for.

16. The Federation and every Province shall

(i) supply to the Auditor General free of charge the annual Budget estimates of the Federation or of the Province and any other publications issued by a department of the Federation or of the Province which he may require for purposes connected with his audit functions, and

(ii) give to him such information as he may require for the preparation of any account or report which it is his duty to prepare.

17. The Auditor General shall have authority to inspect any office of accounts in India which is under the control of the Federation or of a Province, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts as submit accounts to him.

18. The Auditor General shall have authority to require that any books and other documents relating to transactions to which his duties in respect of audit extend, other than books or documents which are in the United Kingdom, shall be sent to such place as he may appoint for inspection by him :

Provided that, if the Governor General or the Governor of a Province certifies that any such book or document is a secret book or document, the Auditor General shall accept as a correct statement of the facts stated in that book or document a statement certified as correct by the Governor General or, as the case may be, by the Governor.

19. Anything which under this Order is directed to be done by the Auditor General may be done by an officer of his department authorised by him, either generally or specially :

Provided that except during the absence of the Auditor General on leave or otherwise, an officer shall not be authorised to submit on his behalf any report which the Auditor General is required by the Act to submit to the Secretary of State, the Governor General or the Governor of a Province.

III. The Auditor of Indian Home Accounts

20. (1) The Auditor of Indian Home Accounts (hereafter in this paragraph referred to as "the Auditor") shall, under the general

superintendence of the Auditor General, audit the accounts of transactions in the United Kingdom affecting the revenues of the Federation or of any Province.

(2) In discharging his functions under this paragraph, the Auditor shall examine and audit the accounts, including appropriation accounts, of the receipt, expenditure and disposal in the United Kingdom of all moneys, stores and other property due to, or held for the purposes of, the Federation or any Province, and shall report on those accounts and, if he is satisfied as to their correctness, shall certify them.

(3) In order that the Auditor's examination of the accounts of accounting authorities and persons may, so far as possible, proceed *pari passu* with their transactions, he shall have free access at all convenient times to their books of account and to the other documents relating to their transactions, and may require them to furnish him from time to time, either at regular intervals or when called upon, with accounts of their transactions up to such date as he may direct:

Provided that, if the Secretary of State, or the High Commissioner for India, certifies that any such book or document as aforesaid is a secret book or document, the Auditor shall accept as a correct statement of the facts appearing in that book or document a statement certified as correct by the Secretary of State, or as the case may be, by the High Commissioner.

(4) As respects any matter for which no provision is made by the Act or by this Order, the Auditor shall comply with any rules which may be made for his guidance by the Governor General acting in his discretion.

21. The provisions of the last preceding paragraph, except in so far as they relate to appropriation accounts, shall apply in relation to transactions in the United Kingdom affecting the revenues of the Federal Railway Authority as they apply in relation to such transactions affecting the revenues of the Federation.

APPENDIX II

REGULATIONS FOR THE CONDUCT OF THE AUDIT OF RECEIPTS AND OF STORES AND STOCK ACCOUNTS UNDER PARAGRAPH 13 (2) OF THE AUDIT AND ACCOUNTS ORDER

(i) Regulations for the Conduct of the Audit of Receipts

1. It is primarily the responsibility of the departmental authorities to see that all revenue, or other debts due to Government, which have to be brought to account, are correctly and promptly assessed, realised and credited to the public account and any investigation by Audit must be so conducted as not to interfere with executive responsibility. And it shall, however, have power to examine the

correctness of the sums brought to account in respect of receipts of any department in such manner and to such an extent as may be determined by Government in consultation with the Accountant General.

2. In conducting the audit of receipts of any Government department the chief aim should be to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue, and to see by an adequate detailed check that any such regulations and procedure are being observed. In the audit of receipts ordinarily the general is more important than the particular.

3. In the audit of receipts it would be necessary in the case of a department, which is a receiver of public money, to ascertain what checks are imposed against the commission of irregularities at the various stages of collection and accounting and to suggest any appropriate improvement of the procedure. Audit might, for instance, suggest in a particular case that a test inspection should be carried out by comparing a sample set of receipt counterfoils with the receipts actually in the hands of the tax-payers or other debtors, the results of such an inspection being made available to Audit.

In no case, however, should independent enquiries be made among the tax-payers or the general public. Audit should confine itself to calling upon the Executive to furnish necessary information and, in cases of difficulty, it should confer with the Administrative authorities concerned as to the best means of obtaining the evidence which it required.

4. The audit of receipts should be regulated mainly with reference to the statutory provisions or financial rules or orders which may be applicable to the particular receipts involved. If the test check reveals any defect in such rules or orders the advisability of amendment should be brought to notice.

It is, however, rarely if ever the duty of Audit to question an authoritative interpretation of such rules or orders, and in no case may audit review a judicial decision, or a decision given by an Administrative authority in a *quasi*-judicial capacity. This instruction does not, however, debar an auditor from bringing to notice any conclusion deducible from the examination of the results of a number of such decisions.

5. Where any financial rule or order applicable to the case prescribes the scale or periodicity of recoveries, it will be the duty of Audit to see, as far as possible, that there is no deviation without proper authority from such scale or periodicity. When this check cannot be exercised centrally, a test audit may be conducted at local inspections, the aim being to secure that disregard of rule or defects of procedure are not such as to lead to leakage of revenue rather than to see that a particular debt due to Government was not realised at all or on due date.

6. Ordinarily Audit will see that no amounts due to Government are left outstanding on its books without sufficient reason. Audit will continue carefully to watch such outstandings and suggest to departmental authorities any feasible means for their recovery. Whenever any dues appear to be irrecoverable, orders for their adjustment should be sought. But unless permitted by any rule or order of a competent authority no sums may be credited to Government by debit to a suspense head; credit must follow, and not precede, actual realisation.

7. The procedure prescribed by the Auditor General for raising and pursuing audit objections in relation to expenditure, including powers of Audit Officers to waive recovery of Government dues under certain conditions, shall apply *mutatis mutandis* in respect of audit objections on any accounts of receipts.

(ii) Regulations for the conduct of the Audit of Stores and Stock Accounts

1. The audit of stores accounts kept in any office or department of Government shall be directed to ascertaining that the departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock-taking of stores are well devised and properly carried into effect, and to bring to the notice of the Government any important deficiencies in quantities of stores, or any grave defects in the system of control.

2. As regards purchases of stores, Audit will see that

(i) these are properly sanctioned, are made economically and in accordance with any rules or orders made by competent authority for purchase of stores required for the public service; in particular when stores are purchased from contractors the system of open competitive tender is adopted and the purchase is made from the lowest tenderer unless there are recorded reasons to the contrary;

(ii) the rates paid agree with those shown in the contract or agreement made for the supply of stores;

(iii) certificates of quality and quantity are furnished by the passing and receiving Government servants before payment is made, except where the contrary is allowed by the rules of Government regulating purchase of stores; and

(iv) purchase orders have not been split up so as to avoid the necessity for obtaining the sanction of a higher authority required with reference to the total amount of the orders.

Audit may call attention to cases of uneconomical purchases of stores and to any losses, which may be clearly and definitely be attributed to the defective or inferior nature of stores which were accepted and certified to be satisfactory in quality.

3. Audit should ascertain that the accounts of receipts of stores whether purchased, or otherwise obtained, and of their issues and

balances are correctly maintained. Where a scale has been prescribed by Government or other authority for issue of stores of any particular kind, it should be seen that the scale is not exceeded.

4. Stores, in many cases, represent a locking up of capital, which is not justifiable unless essential. In order to effect economy in this direction Audit will see that the balance in hand does not exceed the maximum limit prescribed by competent authority and is not in excess of requirements for a reasonable period.

5. The accounting for and maintenance of unserviceable stores which cannot be utilised by the department in whose custody they are kept involve waste of labour and space. The retention of stores in excess of the probable requirements of the department in the near future may result in loss to Government through deterioration. Audit will, therefore, see that measures are taken to survey, segregate and consider the disposal of unserviceable surplus and obsolete stores in accordance with the procedure prescribed by Government in this behalf.

6. It is an important function of Audit to ascertain that the articles are counted periodically and otherwise examined to verify the accuracy of the quantity balances in the books. Audit shall not, except when specially authorised to do so, assume responsibility for the physical verification of stores, but it has the right to investigate balances of stores, if any discrepancies in the stores accounts suggest that such action is necessary. Audit has, however, to see that a certificate of verification of stores is recorded periodically by a responsible authority, that the system of verification adopted by the Executive is adequate and proper, that discrepancies found on stock-taking are properly investigated and adjusted and that, wherever possible, the staff responsible for the verification is independent of the staff which is responsible for the physical custody of the stock or for keeping accounts of it. It should also be seen that, wherever practicable, verifiers of stock work directly under the control of Government, and not under the heads of individual departments.

7. Where a priced account is maintained, Audit will see that

(i) the stores are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time, are correlated with market rates and revised where necessary;

(ii) the value accounts tally with the accounts of works and of departments connected with stores transactions; that the total of the valued account tallies with the outstanding amount in the general accounts; and that the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores; and

(iii) steps are taken for the adjustment of profits or losses due to revaluation, stock-taking, or other causes, and that these are not indicative of any serious disregard of rules.

8. The procedure for the conduct of audit of any stores and stock accounts and the extent to which those accounts should be examined by Audit will be such as may be agreed upon between the Government and the Accountant General.

9. The procedure prescribed by the Auditor General for raising and pursuing audit objections in relation to expenditure shall generally apply in respect of audit objections on any accounts of stores and stock. Where necessary separate rules of procedure shall be laid down by the Accountant General with the concurrence of the Government.

APPENDIX III

EXTRACT FROM THE DEVOLUTION RULES ISSUED UNDER SS. 45A AND 129A OF THE ACT OF 1919

Finance Department

36. (1) There shall be in each Governor's Province a Finance Department which shall be controlled by a member of the Executive Council.

(2) Immediately subordinate to the member there shall be a Financial Secretary, with whom shall be associated, if the Ministers so desire, a Joint Secretary appointed by the Governor after consultation with the Ministers.

(3) The Joint Secretary shall be specially charged with the duty of examining and dealing with financial questions arising in relation to transferred subjects and with proposals for taxation or borrowing put forward by any Minister.

Functions of Finance Department

37. The Finance Department shall perform the following functions, namely :—

(a) It shall be in charge of the account relating to loans granted by the Local Government, and shall advise on the financial aspect of all transactions relating to such loans ;

(b) it shall be responsible for the safety and proper employment of the famine insurance fund ;

(c) it shall examine and report on all proposals for the increase or reduction of taxation ;

(d) it shall examine and report on all proposals for borrowing by the Local Government ; shall take all steps necessary for the purpose of raising such loans as have been duly authorized ; and shall be in charge of all matters relating to the service of loans.

(e) it shall be responsible for seeing that proper financial rules are framed for the guidance of other departments and that suitable accounts are maintained by other departments and establishments subordinate to them ;

(f) it shall prepare an estimate of the total receipts and disbursements of the province in each year, and shall be responsible during

the year for watching the state of the Local Government's balances;

(g) in connection with the budget and with supplementary estimates—

(i) it shall prepare the statement of estimated revenue and expenditure which is laid before the Legislative Council in each year and any supplementary estimates or demands for excess grants which may be submitted to the vote of the Council;

(ii) for the purpose of such preparation, it shall obtain from the departments concerned material on which to base its estimates, and it shall be responsible for the correctness of the estimates framed on the material so supplied;

(iii) it shall examine and advise on all schemes of new expenditure for which it is proposed to make provision in the estimates and shall decline to provide in the estimates for any scheme which has not been so examined;

(h) on receipt of a report from an audit officer to the effect that expenditure for which there is no sufficient sanction is being incurred, it shall require steps to be taken to obtain sanction or that the expenditure shall immediately cease;

(i) it shall lay the audit and appropriation reports before the committee on Public Accounts, and shall bring to the notice of the committee all expenditure which has not been duly authorised and any financial irregularities;

(j) it shall advise departments responsible for the collection of revenue regarding the progress of collection and the methods of collection employed.

Powers of Finance Department Regarding Reappropriation

38. (1) After grants have been voted by the Legislative Council—

(a) the Finance Department shall have power to sanction any reappropriation within a grant from one major, minor or subordinate head to another;

(b) the Member or Minister in charge of a department shall have power to sanction any reappropriation within a grant between heads subordinate to a minor head which does not involve undertaking a recurring liability, provided that a copy of any order sanctioning such a reappropriation shall be communicated to the Finance Department as soon as it is passed.

(2) The Finance Department shall have power to sanction the delegation by a Member or Minister to any officer or class of officers of the power of reappropriation conferred on such Member or Minister by clause (1)(b) above.

(3) Copies of orders sanctioning any reappropriation which does not require the sanction of the Finance Department shall be communicated to that department as soon as such orders are passed.

APPENDIX IV

EXTRACT FROM THE INITIAL AND SUBSIDIARY ACCOUNTS RULES, ISSUED BY THE GOVERNOR GENERAL UNDER PARAGRAPH 11 (3) OF THE AUDIT AND ACCOUNTS ORDER

3. The Auditor General of India from the date these rules come into force shall be relieved from the responsibility for keeping accounts of the undermentioned class or character :—

(a) Initial Accounts required to be kept in treasuries;

(b) Initial and Subsidiary Accounts that may be required to be kept in any office or department of the Federation, or, as the case may be, of any Province;

(c) acounts of stores and stock that may be required to be kept in any office or department of the Federation or of a Province by order of the Governor General or of the Governor of the Province; and

(d) Trading, Manufacturing and Profit and Loss Accounts and balance sheets and any other subsidiary accounts that may be required to be kept by order of the Governor General or of the Governor of a Province in any Department of the Federation or of the Province.

4. Nothing contained in Rule 3 shall be construed as derogating from the authority of the Auditor General of India—

(a) to require any treasury, office or department keeping initial or subsidiary accounts to render accounts of such transactions as are included in them to the audit and accounts offices under his control on such dates as he may determine; or

(b) to prescribe the form in which such accounts shall be rendered and in which the initial accounts, from which the acounts so rendered are compiled or on which they are based, shall be kept.

APPENDIX V

EXTRACT FROM THE AUDIT CODE REGARDING THE ALLOCATION OF EXPENDITURE BETWEEN CAPITAL AND REVENUE

33. It should be borne in mind that the decision whether expenditure shall be met from current revenues or from borrowed moneys rests with the Executive *cum* the Legislature. It is, however, the duty of Audit to bring to notice occasions on which the classification of expenditure between revenue and capital or its distribution between current revenues and loan funds appears to be contrary to the dictates of sound and prudent financial administration. The principles upon which such criticism should be based are described in the following Articles.

34. Capital expenditure may be broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities. The following considerations are relevant in arriving at a decision whether or not expenditure is of a capital nature :—

(a) It is not essential that the concrete assets should be productive in character or that they should even be revenue producing. A productive asset may be considered as one which produces sufficient revenue to afford a surplus over all charges relevant to its functioning. It may on rare occasions be necessary and justifiable to treat as capital a scheme not commercially remunerative but involving large expenditure, say for the construction of a new city.

(b) The purpose of the commutation of recurring liabilities is their extinction or reduction. Although expenditure on this purpose may be genuinely capital expenditure, it is always necessary to examine from the point of view of economical financial administration whether such capital expenditure does not in fact merely replace one set of recurring payments by another, e.g., whether the commutation by debit to capital of pension payments does not result in the substitution of equivalent payments of interest.

(c) It is inherent in the definition of capital expenditure that the assets produced should belong to the authority incurring the expenditure. Expenditure by Government on grants-in-aid to local bodies or institutions for the purpose of constructing assets which will belong to these local bodies or institutions cannot legitimately be considered as capital expenditure.

(d) Expenditure on a temporary asset cannot ordinarily be considered as expenditure of a capital nature.

35. When it has been decided that expenditure on a scheme for the creation of a new or additional asset shall be classed as capital the following are the main principles applicable to the treatment of the expenditure in the accounts :—

(a) Capital bears all charges for the first construction of a project as well as charges for intermediate maintenance of the work while not yet opened for service and bears also charges for such further additions and improvements as may be sanctioned under the rules made by competent authority.

(b) Subject to (c) below, revenue bears all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and unkeep of the project and also on such renewals and replacements and such additions, improvements or extensions as under rules made by competent authority are debitable to the Revenue Account.

(c) In the case of works of renewal and improvement which partake both of a capital and revenue nature, it is impracticable to draw a hard and fast line between what is properly debitable to capital or to revenue. Allocation in such cases is made by detailed

rules and formulae devised by the Executive authorities, which are applied in estimates and accounts to determine the allocation of expenditure between capital and revenue. These rules and formulae must necessarily be based upon some general principle of sound finance which should aim at an equitable distribution of burdens between present and future generations.

(d) In theory it is legitimate to make capital bear the charges for interest on money borrowed to finance the construction of a new project before this project becomes revenue earning. In fact, however, a Government project is only part of the operations of Government and it may be sound financial administration to meet interest charges from other revenue during the process of construction. The charge of interest to capital in Government accounts is justified only when there would be undue disturbance in the Government's budgetary position by taking interest to revenue. The writing back of capitalised interest should be the first charge on any capital receipts or surplus revenues derived from a project when opened for working.

(e) Capital receipts in so far as they relate to expenditure previously debited to capital accruing during the process of construction of a project should be utilised in reduction of expenditure. Thereafter their treatment in the accounts may depend on circumstances, but except in the case of recovered stores on Railways and the Posts and Telegraphs Department or as otherwise provided in the rules of allocation applicable to a particular Department, they should never be credited to the ordinary revenue account of the undertaking.

36. The financial and accounting conception of capital expenditure is imported from commercial theory and practice, and an essential feature is that expenditure of a capital nature is not met from the revenue or profits of a concern. In the sphere of Government accounts the classification of expenditure as capital expenditure affords *prima facie* justification for recording it outside the Revenue Account of Government. The essential purpose of the opening of Capital heads of account is to facilitate the exhibition of the financial results of any special undertaking on the basis of generally accepted commercial principles, or in some more simple conventional manner, either that the cost of a service may be ascertained or that the full financial implications of any policy may be made clear.

37. Expenditure debitable to capital may be financed from the following sources :—

(a) Revenue ;
(b) Borrowings, either
  (i) specific for a particular purpose ;
  (ii) non-specific for all Government purposes ; or
  (iii) unfunded ; and
(c) Sources other than revenue and borrowings, e.g., accumulated balances.

For the purposes of accounts (b) and (c) are grouped together, the capital expenditure met from these sources being described as outlay financed outside the Revenue Account and being quite apart in treatment from expenditure met from revenue. On the other hand, capital expenditure met from revenue is accounted for separately under the appropriate major head within the Revenue Account. The purpose of recording capital expenditure within the Revenue Account as separate and distinct from revenue expenditure is almost always to enable accounts to be prepared according to commercial principles.

It is the function of Government, and not of Audit, to determine the sources from which capital expenditure shall be financed. According to the decision of Government, the expenditure will be classified under the appropriate major head outside or within the Revenue Section of the accounts.

38. Although it is the function of Government to determine the source from which capital expenditure shall be financed, it is one of the duties of Audit to bring to the notice of the proper financial authority cases in which their decision seems contrary to principles of sound financial administration. Before 1st April 1937, the principles by which capital expenditure was charged to borrowed funds were prescribed and jealously guarded by the Secretary of State. According to these principles, capital expenditure could legitimately be financed from borrowings if it were (a) on productive works (b) in a commercial department which was working at such a profit as to fulfil the test of productivity imposed by the Secretary of State, or (c) on commercial undertakings whose accounts were maintained on a commercial basis. Otherwise the prescribed condition was that the proposed expenditure should be so large that it could not reasonably be met from current revenues, this condition being made concrete by the rule that expenditure on Provincial works could not ordinarily be met from borrowed funds, unless the estimated cost of a work, or a group of works, was not less than Rs. 5 lakhs.

39. With the advent of autonomy in the Provincial field these restrictions have ceased to be binding upon Provincial Governments who can now lay down whatever limitations they deem proper for this purpose in agreement with their Legislatures but their decision in this respect should be expected to conform to the principle of prudent finance once enunciated by the Government of India in the following terms :—

> "Two conditions must be fulfilled before it would be justifiable for the Government of India to spend loan funds on unproductive purposes. These are, firstly that the objects for which the money is wanted are so urgent and vital that the expenditure can be neither avoided, postponed nor distributed over a series of years, and secondly that the amount is too great to be met from current revenues."

And it may be said generally that the cost of all comparatively small schemes whether productive or unproductive ought to be met from revenue. Audit will legitimately use its influence in this matter by discouraging a tendency to secure relief from present taxation by the expedient of transferring items of expenditure doubtfully classifiable as capital from the Revenue Section of the budget to the section outside the Revenue Account.

40. It must be remembered of course that, although it may seem to be sound and prudent finance to meet any expenditure, whether of a capital nature or otherwise, from revenue, it must be a corollary of this action that the revenue derived from taxation and other revenue sources is sufficient to cover the expenditure debitable to it. Otherwise the debit to borrowed funds is merely disguised, since in normal circumstances revenue deficits must be financed from borrowings.

41. The duties of Audit in connection with the allocation of expenditure between capital and revenue and in connection with the record of expenditure inside or outside the Revenue Account may be summarised as follows :—

(a) it should see that commonly accepted accounting or commercial principles are not infringed;

(b) it should verify that the accounts exhibit the true financial facts; and

(c) it should bring to notice transgression of generally accepted principles of public finance.

Although Audit has the right of criticising in the light of financial rules which have been generally laid down or on grounds of general financial propriety any order of classification issued by Government, it should be remembered that the final decision will in the last resort rest with the Governor General or the Governor, as the case may be, after consultation with the Auditor General, vide Article 32.

42. Discussions of the allocation of expenditure between capital and revenue, and of the legitimacy of financing expenditure from funds outside the Revenue Account often involve difficult questions of policy, and an Accountant General would be well advised to consult the Auditor General in cases of doubt before pressing any objection to Government action.

APPENDIX VI

EXTRACT FROM THE BOMBAY LEGISLATIVE ASSEMBLY RULES ON THE PUBLIC ACCOUNTS COMMITTEE

Constitution of Committee on Public Accounts

116. (1) As soon as may be after the commencement of the first Session of the Assembly in every year, a Committee on Public Accounts shall be constituted for the purpose of dealing with the reports of

the Auditor-General of India relating to the appropriation accounts of the Province and such other matters as the Finance Department may refer to the Committee.

(2) The Committee on Public Accounts shall consist of twelve members, including the Finance Minister who shall be a member *ex-officio*. The members of the Committee other than the Finance Minister shall be elected by the Assembly from among its members according to the principle of proportional representation by means of the single transferable vote. The members of the Committee shall hold office until a new Committee is elected. They shall be eligible for re-election.

(3) Casual vacancies shall be filled as soon as possible after they occur in the manner prescribed in sub-rule (2) and any person elected to fill such a vacancy shall hold office for so long only as the person in whose place he is elected would have held office. During any vacancy in the Committee, the continuing members may act as if no vacancy has occurred.

(4) The Finance Minister shall, unless he waives his right to be the Chairman, be the Chairman of the Committee on Public Accounts. If he waives his right to be the Chairman, the Committee shall appoint one of its other members to be the Chairman. In the absence of the Chairman at any meeting, the members present shall appoint a Chairman for that meeting.

(5) The provisions of sub-rule (4) of Rule 111 shall also apply to the Committee on Public Accounts.

Control of Committee on Public Accounts

117. (1) In scrutinizing the appropriation accounts of the Province and the report of the Auditor-General thereon, it shall be the duty of the Public Accounts Committee to satisfy itself—

(a) that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged.

(b) that the expenditure conforms to the authority which governs it, and

(c) that every reappropriation has been made in accordance with such rules as may be prescribed by the Governor acting in his discretion or by the Finance Department, as the case may be.

(2) It shall also be the duty of the Public Accounts Committee—

(a) to examine such trading, manufacturing and profit and loss accounts and balance sheets, as the Governor may have required to be prepared, and the Auditor-General's report thereon;

(b) to consider the report of the Auditor-General in cases where the Governor may have required him to conduct an audit of any receipts or to examine the accounts of stores and stocks.

(3) The Chairman of the Public Accounts Committee shall present its report to the Assembly and move that it be taken into consideration by the Assembly.

APPENDIX VII

EXTRACT FROM THE TREASURY RULES ISSUED BY THE GOVERNOR GENERAL OR GOVERNOR UNDER SECTION 151 OF THE ACT

Section III.—Location of moneys standing in the Public Account of the Province

3. Save as provided in sub-rule (2) of rule 7, moneys standing in the Public Account of the Province must either be held in the treasury or in the Bank. Moneys deposited in the Bank shall be considered as one general fund held in the books of the Bank on behalf of the Province.

The deposit of such moneys in the Bank shall be governed by the terms of the agreement made between the Governor of the Province and the Bank under Section 21 of the Reserve Bank of India Act, 1934 (Act II of 1934).

Section IV.—General System of Control over Treasury

District Treasuries

4. (1) Unless the Government, after consultation with the Accountant General otherwise directs in any special case, there shall be a treasury in every district. If moneys standing in the Public Account of the Province are, in any district, not deposited in the Bank, the treasury of that district shall be divided into two departments; a department of accounts, under the charge of an Accountant, and a cash department under the charge of a Treasurer.

(2) The treasury shall be under the general charge of the Collector, who may entrust the immediate executive control to a treasury officer subordinate to him but may not divest himself of administrative control. The Collector shall be responsible for the proper observance of the procedure prescribed by or under these rules and for the punctual submission of all returns required from the treasury by the Government, the Accountant General and the Reserve Bank of India.

Subject to the provisions of this rule, the respective responsibilities of the Collector and the treasury officer for business of the treasury shall be such as may be defined in accordance with such rules as the "Minister of Finance" may approve after consultation with the Accountant General.

(3) The duty of verifying and certifying the monthly cash balance, if any, in the treasury in such manner as the Minister of Finance after consultation with the Accountant General may prescribe and of submitting the monthly accounts of such balance in such form and after such verification as the Accountant General may require, shall be undertaken by the Collector or by such other officer as the Government may specify. It must be performed by the Collector in person at least once in every period of six months.

(4) When a new Collector is appointed to a district he shall at once report his appointment to the Accountant General and shall certify to the Accountant General the amount of the cash balance, if any, which he has taken over. The certificate shall be submitted in such form and after such verification as the Minister of Finance may, after consultation with the Accountant General, prescribe.

(5) No portion of the responsibility for the proper management and working of treasuries shall devolve upon the officers of the Indian Audit Department. The inspection of treasuries by officers of the Indian Audit Department shall not relieve the Collector of his responsibilities for management and inspection.

Sub-treasuries

5. If the requirements of the public business make necessary the establishment of one or more sub-treasuries under a district treasury, the arrangements for the administration thereof and for the proper conduct of business therein, shall be such as may be prescribed by the Minister of Finance after consultation with the Accountant General. The daily accounts of receipts and payments of moneys at a sub-treasury must be included in the accounts of the district treasury.

Office of the Accountant General

6. The office of the Accountant General may, with the consent of, and subject to such conditions as may be prescribed by, the Auditor General of India, perform all or any prescribed part of the duties of a treasury in respect of claims against the Government that may fall due for disbursement and moneys that may be tendered for credit to the public account of the province, at the headquarters of the Government at ......

Section V.—Payment of revenues of the Province into the Public Account

7. (1) Save as hereinafter provided in this section all moneys received by, or tendered to, Government servants on account of the revenues of the province, as defined in section 136 of the Act, shall without undue delay be paid in full into the treasury or into the Bank and shall be included in the public account of the province. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the public account of the province. No department of the Government may require that any moneys received by it on account of the revenues of the province be kept out of the public account of the province.

(2) Notwithstanding anything contained in sub-rule (1) of this rule direct appropriation of departmental receipts for departmental expenditure is authorized in the following cases, that is to say :—

(a) in the case of moneys received on account of the service of summonses, diet-money of witnesses and similar purposes, in civil, revenue and criminal cases;

(b) in the case of fees received by Government servants appointed Notaries Public, under Act XXVI of 1881, and utilized to defray legal expenses, incurred by them in the discharge of their duties as such Notaries Public;

(c) in the case of cash receipts utilized in accordance with departmental regulations by the Public Works Department to defray expenditure on current works, or utilized by that department under the authorization of the Accountant General to defray pay and travelling allowance charges;

(d) in the case of cash found on the person of prisoners at the time of their admission to jail, and used for the repayment by Jail Superintendents under departmental regulations of similar sums due to other prisoners on their release;

(e) in the case of cash received by the Forest Department and utilized in meeting immediate local expenditure;

Provided that the authority hereby given to appropriate departmental receipts for departmental expenditure shall not be construed as authority to keep the departmental receipts and expenses defrayed therefrom outside the account of the payments into and the withdrawals from the public account of the province.

8. Moneys received by a Government servant whether in an official or another capacity which do not relate to or form part of the revenues of the province, shall not be included in the public account of the province, and a Government servant is not required to pay into the public account of the province any such moneys. If any question arises whether moneys are or are not moneys relating to or forming part of the revenues of the province, the question shall be referred to Government whose decision shall be final.

9. (1) A Government servant may not, except with the special permission of the Government, deposit in a bank moneys withdrawn from the Public Account of the Province under the provisions of Section VII of these rules.

(2) With the permission of the Governor his Military Secretary may open an account in a bank for the deposit of funds under the personal control of the Governor.

10. The procedure to be adopted by Government servants in receiving moneys on account of the revenues of the province, granting receipts for such moneys and paying them into the public account of the province and by the treasury and the Bank in receiving such moneys and granting receipts for them shall be such as may be prescribed by the Minister of Finance after consultation with the Accountant General. The procedure so prescribed shall, among other matters, contain provisions so as to secure that—

(i) any person paying money into the treasury shall present with it a memorandum (chalan) in such form, as may be prescribed,

which will show clearly the nature of the payment and the person or Government servant on whose account it is made and will thus contain all the information necessary for the preparation of the receipt to be given in exchange and for the proper accounts classification of the credit and its allocation between Governments and departments concerned ;

(ii) at places where the money is to be deposited in the Bank, the memorandum or chalan referred to in clause (i) above, shall, except where otherwise provided, be presented to the treasury officer who shall enface it with an order to the Bank to receive the money and to grant a receipt ;

(iii) if a cheque on a bank is accepted in payment of Government dues under any rules, a receipt for the actual cheque only shall be given, but the formal receipt for payment shall not be delivered until the cheque has been accepted by the Bank on which it is drawn ; and

(iv) at places where the money is to be deposited in the Bank, the advices of receipts, which according to any provision made under this rule have to be sent to public officers or departments and consolidated receipts or certificates of receipts required by any such provision to be given to any public officer or department, shall be given by the treasury and not by the Bank.

Section VI.—Custody of moneys relating to, or standing in, the Public Account of the Province

11. (1) The procedure for the safe custody of moneys in the hands of Government servants, or held in a treasury, shall be as prescribed by the Minister of Finance, after consultation with the Accountant General.

(2) The Bank is responsible for the safe custody of Government moneys deposited in the Bank.

Section VII.—Withdrawal of moneys from the Public Account

12. In this section "withdrawal" with its cognate expressions refers to the withdrawal of funds from the public account of the province, for disbursements of or on behalf of the province other than disbursements in the United Kingdom.

13. Unless the Minister of Finance, after consultation with the Accountant General, otherwise directs in any case, moneys may not be withdrawn from the public account of the province without the written permission of the treasury officer or of an officer of the Indian Audit Department authorized in this behalf by the Accountant General.

14. The Accountant General may permit withdrawal for any purpose.

15. (a) Subject as hereinafter provided in this section a treasury officer may permit withdrawal for all or any of the following purposes, namely :—

(i) To pay sums due from the Government to the drawing officer.

(ii) To provide the drawing officer with funds to meet claims likely to be presented against the Government in the immediate future by (1) other Government servants, or (2) private parties.

(iii) To enable the drawing officer to supply funds to another Government servant from which to meet similar claims.

(iv) To pay direct from the treasury or from the Bank sums due by Government to a private party.

(v) In the case of an officer or authority empowered to make investments of moneys standing in the public account of the province, for the purpose of such investment.

(b) Unless expressly authorized by the Accountant General, a treasury officer shall not permit withdrawal for any purpose not specified in clause (a) of this rule.

16. Except as provided in rules 26 and 27 a treasury officer shall not permit withdrawal for any purpose unless the claim for withdrawal is presented by such person and in such form, and has been satisfactorily submitted by the treasury officer to such checks, as the Minister of Finance, after consultation with the Accountant General, may prescribe. The procedure so prescribed shall, among other matters, contain provisions so as to secure—

(i) that any person having a claim against Government shall present his voucher at the treasury duly receipted, and stamped where necessary, and that unless otherwise specially provided no such claim shall be paid unless the claim is first submitted to, and the payment directed by, the treasury officer;

(ii) that where sub-treasuries are specially permitted by the Government to cash certain classes of bills without reference to the treasury officer, the payment of such bills shall not, except under special arrangements and on particular occasions, be allowed at the district treasury also;

(iii) that all bills and vouchers on which payment is made by the treasury officer or which are enfaced by him for payment at the Bank or a sub-treasury shall show to what head of account the payment is to be debited, how the amount of the payment is to be allocated between Governments or departments, and what amount, if any, appertains to the revenues of the Central Government or the Federation.

17. A treasury officer has no general authority to make payments on demands presented at the treasury, his authority being strictly

limited to the making of payments authorized by or under these rules. If a demand of any kind is presented at a treasury for a payment which is not authorized by or under these rules, or is not covered by a special order received from the Accountant General, the treasury officer shall decline payment for want of authority. A treasury officer has no authority to act under an order of Government sanctioning a payment, unless the order is an express order to him to make the payment; and even such special orders should, in the absence of urgency, be sent through the Accountant General.

18. A treasury officer shall not honour a claim which he considers to be disputable. He shall require the claimant to refer it to the Accountant General.

19. Except as provided by rules 20 and 21 a payment shall, unless Government by general or special order otherwise directs, be made in the district in which the claim arises.

20. The leave-salary of a gazetted Government servant who draws his leave-salary in India, may be paid in any district of the province. The leave-salary of a non-gazetted servant may be paid in that district only in which his pay could be drawn if he were on duty.

21. Pensions payable in India may be paid in any district of the Province.

22. No withdrawal shall be permitted in order to meet the pay, leave-salary or allowances of a gazetted Government servant or a reward or honorarium payable to a gazetted Government servant, or any pension until the Accountant General has intimated to the treasury officer the rate at which payment shall be made; provided that the Government may, for special reasons and with the concurrence of the Accountant General, waive the provisions of this rule.

23. No withdrawal shall be permitted on a claim for the first of any series of payments in a district of pay or allowances to a Government servant other than a person newly appointed to Government service, unless the claim is supported by a last pay certificate in such form as may be prescribed by the Auditor General of India. A treasury officer may not permit any withdrawal in respect of pay or allowances of a Government servant to whom he has granted a last pay certicate, unless the certificate is first surrendered.

24. The treasury officer shall be responsible to the Accountant General for acceptance of the validity of a claim against which he has permitted withdrawal, and for evidence that the payee has actually received the sum withdrawn.

25. The treasury officer shall obtain sufficient information as to the nature of every payment he is making and shall not accept a voucher which does not formally present that information unless there

are valid reasons, which he shall record in writing, for omitting to require it.

26. A treasury officer may correct an arithmetical inaccuracy or an obvious mistake in any bill presented to him for payment, but shall intimate to the drawing officer any correction which he makes.

27. A Collector may, in circumstances of urgency, by an order in writing authorize and require a treasury officer to make a payment, not being a payment of a pension, without complying with the provisions of these rules. In any such case the Collector shall at once forward a copy of his order and a statement of the circumstances requiring it, and the treasury officer shall at once report the payment, to the Accountant General.

28. A Government servant who is authorized to draw moneys by means of cheques shall notify to the Bank or the treasury upon which he draws the number of each cheque book brought into use and the number of cheques it contains.

29. When a Government servant who is authorized to draw or countersign cheques or bills payable at the treasury or the Bank makes over charge of his office to another, he shall send a specimen of the relieving Government servant's signature to the treasury officer or to the Bank, as the case may be.

Section VIII.—Transfer of moneys standing in the Public Account of the Province

30. The transfer of Government moneys from one treasury to another, and between a treasury and Bank shall be governed by such instructions as may be issued in this behalf by the Minister of Finance after consultation with the Reserve Bank of India. The transfer of moneys between the currency chest balance and treasury balance of a treasury and from or to a small coin depot to or from a treasury under the control of the Government of the Province shall be governed by instructions issued by the Governor General in this behalf.

Section IX.—Responsibility for moneys withdrawn

31. If a treasury officer receives intimation from the Accountant General that moneys have been incorrectly withdrawn and that a certain sum should be recovered from a drawing officer, he shall effect the recovery without delay and without regard to any correspondence undertaken or contemplated with reference to the retrenchment order; and the drawing officer shall without delay repay the sum in such manner as the Accountant General may direct.

32. (a) Subject as hereinafter provided in this rule, the procedure to be observed by a Government servant in regard to moneys withdrawn from the public account of the province for expenditure shall be such as may be prescribed by the Minister of Finance after consultation with the Accountant General.

(b) A Government servant supplied with funds for expenditure shall be responsible for such funds until an account of them has been rendered to the satisfaction of the Accountant General. He shall also be responsible for seeing that payments are made to persons entitled to receive them.

(c) If any doubt arises as to the identity of the Government servant by whom an account of such funds shall be rendered, it shall be decided by the Government.

Section X.—Inter-Government transactions

33. (1) Save as provided hereafter in this section no transactions of the province with another Government shall be adjusted against the balance of the province except in accordance with such directions as may be given by the Auditor General of India with the approval of the Governor General to regulate the procedure for the accounting of transactions between different Governments.

(2) Moneys presented within the jurisdiction of another Government for credit to the public account of the province or a payment made by another Government as a withdrawal affecting the balance of the public account of the province shall not be credited or debited to the public account of the province except under express authority of the Accountant General or any other accounting officer authorized in this behalf by the Auditor General of India.

(3) All adjustments against the balance of the province by debit or credit to another Government shall be made through the Central Accounts Office of the Reserve Bank of India.

34. Where such a course is authorized in consequence of a delegation of functions made under sub-section (1) of section 124 of the Act, the treasury officer may receive or authorize the Bank to receive moneys tendered on behalf of the Central Government or the Federation, and may make or authorize the Bank to make disbursements on behalf of the Central Government or the Federation in accordance with such procedure as may be specified in the rules made by or under the authority of the Governor General. Such receipts and disbursements on behalf of the Central Government or the Federation shall be adjusted, as far as practicable, directly against the balance of the Central Government or the Federation held by the Bank, but where such transactions are temporarily taken into account against the balance of the public account of the province, the Accountant General will on receipt of intimation from the treasury make the requisite adjustments in respect of the aforesaid transactions through the Central Accounts Office of the Reserve Bank of India, against the balances in the public account of the Central Government or the Federation held by the Bank.

35. The treasury officer may, subject to any general or specific direction of the Government in this behalf, receive or authorize the

Bank to receive moneys tendered on behalf of another province and may, if so required by the Accountant General, make or authorize payment of any claim against another province. The necessary credits or debits in respect of such receipts and payments against the balances of the province concerned shall be made by the Accountant General through the Central Accounts Office of the Reserve Bank of India, but until such adjustments are made, the credits and debits shall be entered in the public account of the province.

Moneys paid or received in the office of the Accountant General on behalf of another province, and book entries made in the office of the Accountant General affecting the accounts of another province shall likewise be adjusted by the Accountant General through the Central Accounts Office of the Reserve Bank of India against the balances of the province concerned.

36. The provisions of the preceding rule may be extended with or without modification to payments made or received in the province on behalf of the Federal Railway Authority or of His Majesty's representative for the exercise of the functions of the Crown in its relations with Indian States.

Section XI.—Receipts and disbursements of the province in the United Kingdom

37. Until other provision is made by the Government in this behalf, moneys received in the United Kingdom on account of the revenues of the province may be paid into and funds required for disbursements of or on behalf of the province in that country may be withdrawn from, the balances in the Public Account of the Central Government or the Federation in that country, in accordance with such procedure as may be prescribed by or under the authority of the Governor General for the transactions of the Central Government or the Federation in the United Kingdom. These transactions shall be adjusted in India, at the earliest opportunity, against the balances of the public account of the province according to such directions as may be given in this behalf by the Auditor General of India with the approval of the Governor General.

Section XII.—Supplemental

38. The Accountant General in the exercise of any of his functions under these rules shall be subject to the general control of the Auditor General of India.

39. Nothing in these rules, and nothing prescribed under these rules, shall have effect so as to impede or prejudice the exercise by the Auditor General of India of the powers vested in him by or under the Act, to make rules, or to give directions regulating the submission to the Indian Audit Department of the accounts kept in treasuries or in departmental offices and to be accompanied by such

vouchers for their support as the Auditor General may require for purposes of audit.

40. The Minister of Finance may not exercise any power conferred upon him by these rules so as to impose upon the Bank in connection with the business of the Government any responsibility not imposed upon the Bank by the terms of its agreement with the Governor.

APPENDIX VIII

DUTIES OF A TREASURY OFFICER (EXTRACT FROM THE SUBSIDIARY RULES UNDER THE TREASURY RULES OF THE C.P. & BERAR.)

6. The following may be specified as some of the matters of treasury procedure in which the special personal intervention of the treasury officer is required by the rules :—

(1) He is required to see that every voucher on which he passes an order for payment is complete in every respect.

(2) He is required to see that on purely vernacular vouchers, a brief abstract is endorsed in English.

(3) He is not to honour a claim which on the face of it is disputable but to refer the claimant to the Accountant General.

(4) He has no general authority to deal with demands presented at the treasury ; his authority to make payments is strictly limited to the rules prescribed for the purpose. He has no authority to act under an order of Government sanctioning a payment unless it is an express order to him to make the payment.

(5) He is required to use special precautions for satisfying himself of the identity of the applicant for payment of a bill drawn by a person not in Government service.

(6) He is required to make recoveries exactly in accordance with the instructions of the Accountant General.

(7) He is required to verify the balance in the hands of the treasurer roughly every night, and after verification to place the treasurer's chest in the strong room under double locks.

(8) He is required to observe due precautions in receiving money into, or giving it out from, double locks.

(9) He is required to see that the daily postings of revenue and receipts in the treasury registers are checked by the treasury accountant or his assistant with the chalans and the sub-treasury accounts and to verify the monthly total of all the departmental revenue returns.

(10) He is required, either at the close of the day's business, or before commencing the business of the next day, to examine the daily

accounts with the chalans and vouchers at the headquarters treasury and the daily sub-treasury accounts and to satisfy himself (a) that each item of charge is supported by a voucher, (b) that every item of each chalan and of each tahsil daily account is embodied in its proper register, (c) that the totals of all the registers are correctly entered in the cash book, (d) that the additions and deductions indicated in the accountant's balance sheets are correct, (e) that the result agrees with the balance sheet of the treasurer, and (f) to sign the two cash books and the two balance sheets in token of their correctness and good order.

(11) He is required to observe certain precautions before signing the treasurer's daily balance sheet, vide Financial Rules 927-930.

(12) He is required to satisfy himself before despatch of the list of payments and cash accounts, that the necessary vouchers and schedules are all attached. He is expected to check the schedules with the vouchers at intervals during the month.

(13) He is personally responsible for any payment of pensions wrongly made.

(14) He is required to initial every entry in the revenue deposit register and to see that no item is credited as a deposit save under formal order of competent authority, and also if the amount could be credited to some known head in the Government accounts, to represent the matter accordingly to the court or authority ordering its acceptance.

(15) He is required to observe certain precautions before signing supply bills and remittance transfer receipts, vide Financial Rule 483.

(16) He is required to sign supply bills and transfer receipts legibly and to maintain a uniform signature as far as possible.

(17) He is required to see that the advice lists of bills payable are opened in his presence, to examine them personally and when satisfied of their genuineness, to initial and date them.

(18) He is required to observe certain precautions before paying a supply bill or transfer receipt on his treasury, vide Financial Rules 496-500. He may, however, exercise some latitude, at his discretion, in the payment of a bill of which the advice is missing or inaccurate.

(19) He is required to keep the forms of supply bills and transfer receipts and of advices in his own possession under lock and key, and to observe certain routine in issuing them each morning and in replacing them under lock and key in the evening. Certain precautions are also to be taken on receipt of a parcel of bill forms, vide Financial Rule 513.

(20) He is required to see that every payment made on authority of any letter of credit is entered thereon at the time and to initial the entry; also that every cheque of the Public Works Department

is charged in the Executive Engineer's passbook and in the register of cheques paid. The treasury officer must bear in mind that the letter of credit shows the maximum amount he has authority to pay, or the officer credited has authority to ask for, and any further payment is made at the treasury officer's risk; he should therefore be careful so to record the progressive total of the payments that there may be no risk of overpayment.

(21) He is required to prohibit erasures in any account, register or schedule, or in the cash book, to verify and initial every correction in them, and to take special care with all vouchers and accounts showing signs of alteration, and if such documents be frequently received from any office, to draw the attention of the head of the office to the matter.

(22) He is required to see that a notice is posted in a conspicuous place in the office, of the hour at which the treasury closes for the receipt and payment of money and that the required notices regarding the encashment of currency notes, the supply of small coin and copper and the like are exhibited conspicuously in places which the public enter freely and that no favouritism is shown in the conveniences which the treasury can offer.

APPENDIX IX

SEPARATION OF RAILWAY FROM GENERAL FINANCE

The following is the resolution regarding the separation of Railway from General Finances, adopted by the Legislative Assembly on the 20th September 1924.

" This Assembly recommends to the Governor General in Council that in order to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates and to enable railways to carry out a continuous railway policy based on the necessity of making a definite return to general revenues on the money expended by the State on Railways:

(1) The railway finances shall be separated from the general finances of the country and the general revenues shall receive a definite annual contribution from railways which shall be the first charge on the net receipts of railways.

(2) The contribution shall be based on the capital at charge and working results of commercial lines, and shall be a sum equal to one per cent. on the capital at charge of commercial lines (excluding capital contributed by companies and Indian States) at the end of the penultimate financial year plus one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition that, if in any year railway revenues are insufficient to provide the

percentage of one per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good. The interest on the capital at charge of, and the loss in working, strategic lines shall be borne by general revenues and shall consequently be deducted from the contribution so calculated in order to arrive at the net amount payable from railway to general revenues each year.

(3) Any surplus remaining after this payment to general revenues shall be transferred to a railway reserve; provided that if the amount available for transfer to the railway reserve exceeds in any year three crores of rupees only two-thirds of the excess over three crores shall be transferred to the railway reserve and the remaining one-third shall accrue to general revenues.

(4) The railway reserve shall be used to secure the payment of the annual contribution to general revenues; to provide, if necessary, for arrears of depreciation and for writing down and writing off capital; and to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced.

(5) The railway administration shall be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from the capital or from the reserve for the purpose of meeting expenditure for which there is no provision or insufficient provision in the revenue budget subject to the obligation to make repayment of such borrowings out of the revenue budgets of subsequent years.

(6) A Standing Finance Committee for Railways shall be constituted consisting of one nominated official member of the Legislative Assembly who should be chairman and eleven members elected by the Legislative Assembly from their body. The members of the Standing Finance Committee for Railways shall be *ex-officio* members of the Central Advisory Council, which shall consist, in addition, of not more than one further nominated official member, six non-official members selected from a panel of eight elected by the Council of State from their body and six non-official members selected from a panel of eight elected by the Legislative Assembly from their body. The Railway Department shall place the estimate of railway expenditure before the Standing Finance Committee for Railways on some date prior to the date for the discussion of the demand for grants for railways and shall, as far as possible, instead of the expenditure programme from revenue, show the expenditure under a depreciation fund created as per the new rules for charge to capital and revenue.

(7) The railway budget shall be presented to the Legislative Assembly if possible in advance of the general budget and separate days shall be allotted for its discussion, and the Member in charge of Railways shall then make a general statement on railway accounts and

working. The expenditure proposed in the railway budget, including expenditure from the depreciation fund and the railway reserve, shall be placed before the Legislative Assembly in the form of demands for grants. The form the budget shall take after separation, the details it shall give and the number of demands for grants into which the total vote shall be divided shall be considered by the Railway Board in consultation with the proposed Standing Finance Committee for Railways with a view to the introduction of improvements in time for the next budget, if possible.

(8) These arrangements shall be subjected to periodic revision but shall be provisionally tried for at least three years.

(9) In view of the fact that the Assembly adheres to the resolution passed in February, 1923, in favour of State management of Indian Railways, these arrangements shall hold good only so long as the East Indian Railway and the Great Indian Peninsula Railway and existing State-managed railways remain under State management. But if in spite of the Assembly's resolution above referred to Government should enter on any negotiations for the transfer of any of the above railways to Company management such negotiations shall not be concluded until facilities have been given for a discussion of the whole matter in the Assembly. If any contract for the transfer of any of the above railways to Company management is concluded against the advice of the Assembly, the Assembly will be at liberty to terminate the arrangements in this Resolution.

Apart from the above convention this Assembly further recommends :—

(i) that the railway services should be rapidly Indianised, and further that Indians should be appointed as Members of the Railway Board as early as possible, and

(ii) that the purchases of stores for the State Railways should be undertaken through the organisation of the Stores Purchase Department of the Government of India."

On 2nd March, 1943, the Legislative Assembly by resolution modified the above convention. The changes are as follows :—

(1) For the year 1942-43 a sum of Rs. 2.35 lakhs shall be paid to the general revenues over and above the current and arrear contribution due under the convention.

(2) From 1st April, 1943, so much of the convention as provides for the contribution and allocation of surpluses to general revenues shall cease to be in force.

(3) For the year 1943-44, the surplus on commercial lines shall be utilised to repay any outstanding loan from the depreciation fund and thereafter be divided 25 per cent.

to the railway reserve and 75 per cent. to the general revenues, the loss, if any, on strategic lines being recovered from general revenues.

(4) For subsequent years and until a new convention is adopted by the Assembly, the allocation of the surplus on commercial lines between the railway reserve and general revenues shall be decided each year on a consideration of the needs of the railways and general revenues, the loss, if any, on strategic lines being recovered from the general revenues.

APPENDIX X

EXTRACT FROM THE STATE RAILWAY GENERAL CODE REGARDING THE RAILWAY ALLOCATION OF EXPENDITURE BETWEEN REVENUE AND CAPITAL

901. Railway expenditure may be incurred either on Capital Account or on Revenue Account, or from the Depreciation Reserve Fund.... The general principles on which railway expenditure should be allocated between these three main sections of the Accounts are laid down in paragraphs 902 to 908 below.

902. Capital bears :—

(1) the cost of land,

(2) the first cost of construction and equipment of the line,

(3) the cost of maintaining a section of the line not opened for working,

(4) the cost of any addition to the line or equipment of the line when estimated to cost more than the New Minor Works limit, as defined in para. 928,

(5) the excess, if amounting to more than Rs. 2,000, in the cost of the new asset over the original cost of the existing asset, or over the cost of its replacement by a like asset, whichever gives a smaller debit to Capital,

(6) the cost of any tools and plant specifically purchased, and of any posts specially created, for the supervision or construction of a work, in accordance with the provisions of paragraph 987.

903. Capital is credited with :—

(1) any excess in the sale proceeds of an asset over and above its original value, provided the latter exceeds Rs. 2,000,

(2) the cost at debit of capital of an asset (other than land) which is abandoned or disposed of without being replaced,

Note.—When such an asset is subsequently replaced the adjustment made under this rule is reversed and the expenditure is allocated according to para. 948 et sqq.

(3) the sale proceeds of any land acquired at the cost of Capital, when it is sold or surrendered,

(4) the difference between the cost at debit of Capital of a replaced asset and the cost of its replacement, when the cost of replacement is chargeable to the Depreciation Reserve Fund (vide para. 950) and is less than the cost at debit of Capital,

(5) the cost of labour originally incurred in laying the assets or parts thereof, when such items are subsequently transferred for use on a new work.

904. Revenue bears :—

(1) all charges for maintenance and repairs after the opening of a line for traffic, other than charges of the nature detailed in para. 921, including the current expenses of conducting the business of a railway, e.g., pay, allowances, etc., of establishment employed on the open line,

(2) the contribution made to the Depreciation Reserve Fund under para. 907, to meet the cost of replacements and renewals,

(3) the excess, as worked out under para. 902 (5), in the cost of replacement of an asset, when such excess is not more than Rs. 2,000,

(4) the cost of such replacements and renewals as are not chargeable to the Depreciation Reserve Fund under para. 950,

(5) the cost of such works of additions as fall within the category of New Minor Works as defined in para. 928,

(6) the cost of labour originally incurred in laying the assets or parts thereof, when such items are subsequently transferred for use on a new work,

(7) the original cost of an asset (other than land) abandoned or disposed of without being replaced, when it is Rs. 2,000 or less.

905. Revenue is credited with :—

(1) the value of materials released from works charged to Revenue (ordinary repairs and maintenance),

(2) the amount realised from the disposal of an asset the original cost of which is Rs. 2,000 or less.

906. Depreciation Reserve Fund bears :—

(1) the cost of replacements and renewals in accordance with the provisions of paras. 947 to 950,

(2) the cost of debit of Capital of an asset (other than land) which is abandoned or disposed of without being replaced, provided it is above Rs. 2,000,

Note.—When such an asset is subsequently replaced, the adjustment made under this rule is reversed and the expenditure is allocated according to para. 948 et sqq.

(3) the cost of tools and plant specially purchased, and of any posts specially created, for the supervision or construction of a work in accordance with the provisions of para. 987.

907. Depreciation Reserve Fund is credited with the amount of contribution from Revenue, calculated at 1|60th of the Capital at charge of each railway at the end of the previous financial year as shown in the Finance and Revenue Accounts of the Government of India.

908. Credits realised from the disposal of an asset the original cost of which is more than Rs. 2,000 and credits for materials released from a work which has been replaced at the cost of the Depreciation Reserve Fund are taken in reduction of expenditure from the Depreciation Reserve Fund, after deducting the incidental charges, e.g., the cost of dismantling, handling and shifting, including freight to stores depot.

APPENDIX XI.

LIST OF SECTIONS UNDER THE FOUR DIVISIONS OF ACCOUNTS

I.—Revenue :—

A.—$\frac{\text{Principal Heads of Revenue.}}{\text{Direct Demands on the Revenue.}}$

AA.—Principal Revenue Heads :—

Capital Outlay on Salt Works within the Revenue Account.

B.—Railway Revenue Account.

BB.—Railway Capital Account within the Revenue Account.

C.—Revenue Account of Irrigation, Navigation, Embankment and Drainage Works.

CC.—Capital Account of Irrigation, Navigation, Embankment and Drainage Works within the Revenue Account.

D.—Posts and Telegraphs Revenue Account.

DD.—Posts and Telegraphs Capital Account within the Revenue Account.

E.—Debt Services.

F.—Civil Administration.

FF.—Civil Administration—Capital Account within the Revenue Account.

G.—Currency and Mint.
H.—Civil Works and Miscellaneous Public Improvements.
HH.—Capital Account of Civil Works and Miscellaneous Public Improvements within the Revenue Account.
I.—Elecricity Schemes.
II.—Capital Account of Electricity Schemes within the Revenue Account.
J.—Miscellaneous.
JJ.—Miscellaneous Capital Account within the Revenue Account.
K.—Defence Services.
L.—Contributions and Miscellaneous Adjustments between Central and Provincial Governments.
M.—Extraordinary Items.

II.—Capital :—

AA.—Principal Revenue Heads :—
Forest and other Capital Accounts outside the Revenue Account.
BB.—Railway Capital Account outside the Revenue Account.
CC.—Capital Account of Irrigation, Navigation, Embankment and Drainage Works outside the Revenue Account.
DD.—Posts and Telegraphs Capital Account outside the Revenue Account.
FF.—Civil Administration—Capital Accounts outside the Revenue Account.
GG.—Currency and Mint—Capital Accounts outside the Revenue Account.
HH.—Capital Account of Civil Works and Miscellaneous Public Improvements outside the Revenue Account.
II.—Capital Account of Electricity Schemes outside the Revenue Account.
JJ.—Miscellaneous Capital Account outside the Revenue Account.
KK.—Defence Capital Account outside the Revenue Account.

III.—Debt :—

N.—Public Debt.
O.—Unfunded Debt.
P.—Deposits and Advances.
Q.—Loans and Advances by the Central Government.
R.—Loans and Advances by Provincial Governments.

IV.—Remittance :—

S.—Remittances—
I.—Remittances within India.
II.—Remittances between England and India.
T.—Transfer of Cash between England and India.

APPENDIX XII

(A) EXTRACT FROM THE TABLE OF ESTIMATING AUTHORITIES (BOMBAY FINANCIAL RULES— APPENDIX 6)

Estimate	Submitted by	Controlling Officer (channel through which estimates are to be submitted)	Administrative Department concerned
V—Land Revenue	All collectors concerned	Commissioners concerned	Revenue Department
	Collector of Bombay & Bombay Suburban District	Collector of Bombay and Bombay Suburban District	
	Commissioner, Central Division	Commissioner, Central Division	
XIX-Police	All District Superintendents of Police	Inspector General of Police	Home Department
	Commissioner of Police, Bombay	Commissioner of Police, Bombay	
	Superintendent of Police, B.B. & C.I.R.	Inspector General of Police	
	Superintendent of Police, G.I.P.R. & M.S.M.R		
31-Education.	Director of Public Instruction	Director of Public Instruction	Educational Department
	Principals of Colleges		
	Headmasters and Headmistresses		
	Educational Inspectors and Inspectresses		
	Principals, Training Colleges		
	Inspector of Drawing and Craft		
	Director, J. J. School of Art	Director of J. J. School of Art	
34-Agriculture	Director of Agriculture	Director of Agriculture	Revenue Department
	Principal, Bombay Veterinary College	Director, Veterinary Service	
	Director, Veterinary Service		
	Registrar of Cooperative Societies	Registrar of Cooperative Societies	

(B) SPECIMEN DISTRIBUTION OF A GRANT (BOMBAY FINANCIAL RULES—APPENDIX 7)

Major Head	Minor Head	Sub-head	Primary Unit
31-Education A-University	A-Grants to Universities	...	Grants-in-aid, contributions and donations
	B-Government Arts Colleges	1. Science Colleges	i. Pay of Officers ii. Pay of Establishment. iii. Allowances, Honoraria iv. Contingencies
		2. Other Arts Colleges.	i-iv as above
	C-Grants to Non-Government Arts Colleges	...	Grants-in-aid, Contributions and donations
	D-Government Professional Colleges	1. Law 2. Engineering 3. Training 4. Commerce.	i-iv as above " " "
	E-Grants to non-Government Professional Colleges	...	Grants-in-aid, contributions and donations
B-Secondary	F-Government Secondary Schools	1. For boys 2. For girls	i-iv as above "
	G-Direct Grants to non-Government Secondary Schools	...	Grants-in-aid, contributions and donations
	H-Grants to Local bodies for secondary education	...	"
C-Primary	I, J, K,		
D-Special	L, M, N,		
E-General	O, P, Q, etc.		

(C) EXTRACT FROM THE TABLE OF AUTHORITIES RESPONSIBLE FOR THE CONTROL OF EXPENDITURE (BOMBAY FINANCIAL RULES—APPENDIX 14)

Head of Account	Secretariat Department responsible for the demand	Authority responsible for watching the progress of expenditure against appropriation
7 - Stamps	Revenue Department	Secretary to Government Revenue Department
24 - Administration of Justice	Home Department	Prothonotary and Senior Master
A - High Court		
A 1 - Judges	Home Department	Prothonotary and Senior Master
A 2 - Original side		
a) Prothonotary and Senior Master	-do-	-do-
b) Translator	-do-	-do-
A 3 - Appellate side		
a) Registrar	-do-	Registrar Appellate side
b) Reporter	-do-	Reporter High Court
c) Translator	-do-	Registrar Appellate side
and so on for A4, A5, etc.		
B - Law Officers: Presidency Law Officer	Legal Department	Secretary to Government Legal Department
High Court Pleader	-do-	Remembrancer of Legal Affairs
And so on		
C - Administrator General and Official Trustee	Home Department	Administrator General and Official Trustee
And so on for D, E, F, G, H, I.		

APPENDIX XIII

SPECIMEN DEMAND FOR A GRANT (ASSAM)

GRANT NO.——

Charges on account of Public Health

(Head of Account—39-Public Health)

I. ESTIMATE of the amount required in the year ending March 31, 1942, to defray the expenses in connection with the administration of the Public Health Department.

Voted :—Rupees..........................

Charged :—Rupees........................

II. Sub-heads under which this grant will be accounted for by the PUBLIC HEALTH DEPARTMENT :—

	Budget Estimate 1941-42	Revised Estimate 1940 41	Budget Estimate 1940-41	Actuals 1939-40
A—PUBLIC HEALTH ESTABLISHMENT				
(a) Superintendence and other Establishment—				
1. Pay of Officers				
Voted				
Charged				
2. Pay of Establishment				
(etc.)				

III. DETAILS OF THE FOREGOING

APPENDIX XIV

SPECIMEN BUDGET ESTIMATE FORMS

A. Part I—Standing Charges (Bombay)

MAJOR AND MINOR HEADS	Actuals			Budget Estimate 1940—41	Budget Estimate, 1941–42				Explanations of Increase or Decrease
	1937—38	1938—39	1939—40		Estimating Officer's	Controlling Officer's	Administrative Department's	Finance Department's	

B. Part II—Fresh Charges (Centre)

No. of Item	Major head, minor head, sub-head and detailed head	Particulars of Item	Amount proposed by Local Officer	Grounds for expenditure or reference to correspondence thereon	Amount recommended by Administrative Department	Notes in Finance Department	Amount recommended by Finance Department

C. Revised Estimates (C.P. & Berar)

Item No.	Heads	Actuals of 1939–40	Revised Estimates for 1940–41				Remarks
			Sanctioned Budget Estimates for the current year 1940–41	Actuals of first 7 months for the current year	Probable Actuals of remaining 5 months of the current year	Total for 12 months of the current year	

D. Civil Budget Estimates (Centre)

Major, Minor and Detailed Heads	Actuals			Budget 1940–41	Revised, 1940–41			Revised 1940–41	Remarks	Budget, 1941–42			Remarks explaining the cause of difference between figures in columns 5 and 11
	1937–38	1938–39	1939–40		Actuals of first 5 months 1940–41	Actuals of last 6 months 1939–40	Total			As proposed by Local Officer	Variation from Budget 1940–41 +more, —less	As amended by A.G., C.R	
1	2	3	4	5	6	7	8	9	10	11	12	13	14

E. Consolidated Abstract of Estimates

Actuals		Item No.	Heads	Sanctioned Budget Estimate for the year 1940-41			Actuals of 12 months ending			Revised Estimate 1940-41	Budget Estimate for the ensuing year 1941-42					
											Proposed by Budgeting Officers			Passed by the Local Government		
1938-39	1939-40			Ordinary expenditure	New expenditure	Total	Last 7 months of 1939-40	First 5 months of 1940-41	Total		Ordinary expenditure	New expenditure	Total	Ordinary expenditure	New expenditure	Total

APPENDIX XV

LIST OF MAJOR HEADS OF ACCOUNT (EXTRACT FROM THE LIST OF MAJOR AND MINOR HEADS OF ACCOUNT ISSUED BY THE AUDITOR GENERAL WITH THE APPROVAL OF THE GOVERNOR GENERAL.)

Section Letters — Major Heads

REVENUE

A **Principal Heads of Revenue**
- I Customs
- II Central Excise Duties
- III Corporation Tax
- IV Taxes on Income other than Corporation Tax
- ~~V Salt~~
- VI Opium
- VII Land Revenue
- VIII Provincial Excise
- IX Stamps
- X Forest
- XI Registration
- XII Receipts under Motor Vehicles Acts
- XIII Other Taxes and Duties
  - A. Taxes on Luxuries including Taxes on Entertainments, Betting and Gambling
  - B. Receipts from Electricity Duties
  - C. Receipts from Tobacco Duties
  - D. Other Items

B **Railway Revenue Account**
- XV ~~State~~ Railways
- XVI Subsidised Companies

C **Irrigation, Navigation, Embankment and Drainage Works**
- XVII Irrigation, Navigation, Embankment and Drainage works for which Capital Accounts are kept
- XVIII Irrigation, Navigation, Embankment and Drainage works for which no Capital Accounts are kept

D **Posts and Telegraphs**
- XIX Posts and Telegraphs

E **Debt Services**
- XX Interest

F **Civil Administration**
- XXI Administration of Justice
- XXII Jails and Convict Settlements
- XXIII Police
- XXIV Ports and Pilotage
- XXV Lighthouses and Lightships
- XXVI Education
- XXVII Medical
- XXVIII Public Health
- XXIX Agriculture
- XXX Veterinary
- XXXI Co-operation
- XXXII Industries
- XXXIII Aviation
- XXXIV Broadcasting
- XXXV ~~Indian Stores Department~~
- XXXVI Miscellaneous Departments

G **Currency and Mint**
- XXXVII Currency
- XXXVIII Mint

Section Letters	Major Heads
H	**Civil Works and Miscellaneous Public Departments**
	XXXIX Civil Works
	XL Receipts from Electric Schemes
	XLI Bombay Development Scheme
J	**Miscellaneous**
	XLII Receipts from Indian States
	XLIII Transfers from Famine Relief Fund
	XLIV Receipts in aid of Superannuation
	XLV Stationery and Printing
	XLVI Miscellaneous
K	**Defence Services**
	XLVII Defence Receipts—Effective
	XLVIII Defence Receipts—Non-Effective
L	**Contributions and Miscellaneous Adjustments between Central and Provincial Governments**
	XLIX Grants-in-aid from the Central Government
	L Miscellaneous Adjustments between Central and Provincial Governments
M	**Extraordinary Items**
	LI Extraordinary Receipts
BB	**Railway Capital Account outside the Revenue Account**
	LII Capital contributed by Railway Companies and Indian States towards Outlay on State Railways

Section Letters	Major Heads
	EXPENDITURE
A	**Direct Demands on the Revenue**
	1 Customs
	2 Central Excise Duties
	3 Corporation Tax
	4 Taxes on Income other than Corporation Tax
	~~5 Salt~~
	6 Opium
	7 Land Revenue
	8 Provincial Excise
	9 Stamps
	10 Forest
	11 Registration
	12 Charges on account of Motor Vehicles Acts
	13 Other Taxes and Duties
AA	~~**Principal Revenue Heads—Capital Outlay on Salt Works within the Revenue Account**~~
	5-~~A Capital~~ Outlay on Salt Works
B	**Railway Revenue Account**
	~~45-A~~ ~~State~~ Railways (Commercial Lines)
	15-B ~~State~~ Railways (Strategic Lines)
	15-C Subsidized Companies
	15-D Miscellaneous Railway Expenditure (Commercial Lines)
	15-E Miscellaneous Railway Expenditure (Strategic Lines)
BB	**Railway Capital ~~Expenditure~~ within the Revenue Account**
	16 Construction of Railways (Debited to Provincial Revenues)

Section Letters	Major Heads
C	**Revenue Account of Irrigation, Navigation, Embankment and Drainage Works**
	17 Interest on Works for which Capital Accounts are kept
	18 Other Revenue Expenditure financed from Ordinary Revenues
	18(1) Other Revenue Expenditure financed from Famine Relief Fund
CC	**Capital Account of Irrigation Navigation, Embankment and Drainage Works within the Revenue Account**
	19 Construction of Irrigation, Navigation, Embankment and Drainage Works
D	**Posts and Telegraphs Revenue Account**
	20 Posts and Telegraphs
DD	**Posts and Telegraphs Capital Account within the Revenue Account**
	21 Capital Outlay on Posts and Telegraphs
E	**Debt Services**
	22 Interest on Debt and other Obligations
	23 Appropriations for Reduction or Avoidance of Debt
F	**Civil Administration**
	25 General Administration
	26 Audit
	27 Administration of Justice
	28 Jails and Convict Settlements
	29 Police
	30 Ports and Pilotage
	31 Lighthouses and Lightships
	32 Ecclesiastical
	33 ~~Payments to Crown Representative~~
	34 Tribal Areas
	35 External Affairs
	36 Scientific Departments
	37 Education
	38 Medical
	39 Public Health
	40 Agriculture
	41 Veterinary
	42 Co-operation
	43 Industries
	44 Aviation
	45 Broadcasting
	46 ~~Indian Stores Department~~
	47 Miscellaneous Departments
FF	**Civil Administration — Capital Account within the Revenue Account**
	43-A Capital Outlay on industrial Development
	44-A Capital Outlay on Civil Aviation
	45-A Capital Outlay on Broadcasting
G	**Currency and Mint**
	48 Currency
	49 Mint
H	**Civil Works and Miscellaneous Public Improvements**
	50 Civil Works
	51 Interest on Capital Outlay on Electric Schemes
	52 Bombay Development Scheme

Section Letters	Major Heads
HH	**Capital Account of Civil Works and Miscellaneous Public Improvements within the Revenue Account**
	50-A Capital Outlay on Civil Works met out of Extraordinary Receipts
	53 Capital Outlay on Electric Schemes met out of Revenue
J	**Miscellaneous**
	54 Famine
	55 Superannuation Allowances and Pension
	56 Stationery and Printing
	57 Miscellaneous
JJ	**Miscellaneous — Capital Account within the Revenue Account**
	55-A Commutation of Pensions financed from Ordinary Revenue
K	**Defence Services**
	58 Defence Services — Effective.
	59 Defence Services — Non-effective
	60 Transfer to or from Defence Reserve Fund
L	**Contributions and Miscellaneous Adjustments between Central and Provincial Governments**
	61 Grants-in-aid to Provincial Governments
	62 Miscellaneous Adjustments between Central and Provincial Governments
M	**Extraordinary Items**
	63 Extraordinary Charges

CAPITAL ACCOUNTS OUTSIDE THE REVENUE ACCOUNT—EXPENDITURE

Section Letters	Major Heads
AA	**Principal Revenue Heads—Forest and Other Capital Accounts outside the Revenue Account**
	65 Capital Outlay on Forests
	66 Capital Outlay on the Security Printing Press
BB	**Railway Capital Account outside the Revenue Account**
	67-A Construction of State Railways — Commercial
	67-B Construction of State Railways — Strategic
	67-C Capital constituted by Railway Companies towards Outlay on State Railways
	67-D Redemption of Liabilities involved in the Purchase of Railways
CC	**Capital Account of Irrigation, Navigation, Embankment and Drainage Works outside the Revenue Account**
	68 Construction of Irrigation, Navigation, Embankment and Drainage Works
DD	**Posts and Telegraphs Capital Account outside the Revenue Account**
	69 Capital Outlay on Posts and Telegraphs

Section Letters	Major Heads
FF	**Civil Administration — Capital Account outside the Revenue Account**
	70 Capital Outlay on Improvement of Public Health
	71 Capital Outlay on schemes of Agricultural Improvement and Research
	72 Capital Outlay on Industrial Development
	72-A Capital Outlay on Civil Aviation
	73 Capital Outlay on Vizagapatam Port
	74 Capital Outlay on Lighthouses and Lightships
GG	**Currency and Mint — Capital Account outside the Revenue Account**
	77 Currency Capital Account outside the Revenue Account
HH	**Capital Account of Civil Works and Miscellaneous Public Improvements outside the Revenue Account**
	78 Initial Expenditure on New Capital at Delhi
	79 Capital Outlay on Electric Schemes
	80 Bombay Development Scheme
	81 Capital Account of Civil Works outside the Revenue Account
JJ	**Miscellaneous Capital Account outside the Revenue Account**
	82 Capital Account of other Provincial Works outside the Revenue Account
	83 Payments of Commuted Value of Pensions
	84 Capital Outlay on Bombay Lands Scheme
	85 Payments to Retrenched Personnel

Sections N—V deal with Debt, Deposits, Advances, Suspense and Remittance Heads and Cash Balances.

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